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THE ENGLISH INCOME TAX

With

Special Reference to Administration and Method of Assessment

BY

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PREFATORY NOTE.

On the occasion of a visit to England in the summer of 1897, I undertook an investigation of the practical workings of the English income tax. I had been delegated to do this by the Massachusetts Commission on Taxation. My report to the Commission was withheld from publication in accordance with my wish, in order that I might supplement the personal inquiries I had made by a more careful study of the published materials relating to the tax. These investigations have now been completed and the results are offered to the public in this monograph.

The circumstances under which this work has been prepared have led me to entertain the hope that it might prove useful to tax commissions and legislative committees, as well as to students of taxation and public finance. In practise, the problem of taxation is largely a problem of administration, in regard to which much may be learned by a study of the tax systems of different countries. In fact, that is almost the only way by which one can hope to arrive at any general conclusions which are of value. The materials for such a line of study are abundant, but they are not very accessible, at least not to the general public. But little has been written in English on the subject of tax administration. Perhaps this circumstance, rather than any sense of national self-sufficiency, explains why tax commissions and legislative bodies in the United States have paid so little attention to the experience of other countries.

I have for some time had in view the preparation of a work which should be in the nature of a comparative study of the methods of assessing income and property taxes in the principal countries of Europe. But while I have collected material for this work to a considerable extent, I cannot

look forward to its completion in the near future. In the meantime, this account of the assessment of the income tax in England, originally contemplated as a part of that work, is deemed of sufficient importance to justify its immediate publication.

There is much to be said in favor of the English system of assessing a tax upon the sources of income. I shall not undertake to consider here the advisability of adopting that system in this country. But it may be well to point out that without adopting the tax, it is possible to profit by English experience in other ways. For there are many features in the administration of the tax which would be equally applicable to other forms of taxation. As examples, I might mention the use made of declarations in Schedule D, and the methods by which these declarations are obtained ; or the system of inspection by trained government officers, who are permanently employed in the tax service ; or the institution of permanent and independent local boards ; or the taxpayer's option of assessment either by a local board or by a central government board. Such administrative features as these have no necessary connection with the form of income tax which has been adopted in England. They could be as advantageously applied to a personal income tax or a general property tax.

In offering this work to the public, I desire to acknowledge my great indebtedness to different officers in the Inland Revenue Service, for their uniform patience and courtesy in answering my numerous inquiries and otherwise aiding me in my investigations. The information I owe to them probably constitutes the most valuable part of this monograph.

J. A. HILL.

*Cambridge, Mass.,
November, 1899.*

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I.

INTRODUCTION.

In the fiscal system of the English government the income and property tax has proved to be a convenient and productive source of revenue. In the year 1898-1899 it brought into the Exchequer over £18,000,000, and thus provided about one-sixth of the total amount expended by the national government. Besides constituting an important part of the permanent or ordinary revenues, the tax has repeatedly proved to be a valuable resource for an emergency; through its instrumentality more than one Chancellor of the Exchequer, under conditions of more or less difficulty, has succeeded in maintaining that close adjustment of revenue to expenditure which the excellent traditions of English system of finance required of him.

The tax has had, in fact, a somewhat remarkable history. Originally adopted as a temporary resource, it has now been assessed for over fifty years without any interruption; and although still, in form, a temporary tax, requiring for its continuance an annual renewal by act of Parliament, it is, in all probability, as firmly established and as permanent as any part of the revenue system. The tax is, however, more than fifty years old if we date its age from its first appearance in the fiscal system of England. A tax on incomes was resorted to by William Pitt as far back as 1798 and the

income tax in its present form was introduced in 1803. These were war taxes. At that period a direct tax on income could hardly have been levied by any government in a time of peace. But under the pressure of the heavy strain which the struggle with Napoleon was imposing upon the financial resources of England, it was accepted as a burdensome but justifiable demand upon the patriotism of the nation. When the Napoleonic wars terminated with the Battle of Waterloo and a permanent peace had been established under the Treaty of Vienna, the tax was at once discontinued. It was not resorted to again until 1842. In that year Sir Robert Peel revived it, partly to provide for a deficit in the budget and partly to enable him to make certain reductions and reforms in the complicated system of protective import duties. It was expected that this revival would be only temporary; but it proved to be permanent. The government has never since found itself quite ready to part with this source of revenue, and the country, as represented by Parliament, has never insisted on being relieved from the impost; and so the income tax has been continued to the present day. It was many years, however, before the intention of ultimately dispensing with it was virtually abandoned. In 1853 Mr. Gladstone came before Parliament with a comprehensive and far-reaching financial programme which he confidently believed would place the government in a position to part with the income tax at the expiration of seven years; and it is probable that this expectation would have been realized and that the tax could and perhaps

would have been given up at the end of that period, had it not been for the Crimean War. That unexpected event involved large expenditures which Mr. Gladstone had not anticipated, and when the year 1860 arrived he had no alternative but to ask for a renewal of the tax. Again, in 1874, when Mr. Gladstone felt constrained to dissolve Parliament and appeal to the country, he offered, in event of his return to office, to abolish the income tax.¹ Mr. Gladstone's party, however, was defeated. But the election did not turn upon financial questions and could hardly be regarded as a popular verdict in favor of the income tax. Still the Disraeli ministry, which now came into office, naturally felt free to continue the tax and found it desirable to do so; and since that time no prime minister has ever proposed to part with this convenient and productive source of revenue.

In the earlier period of its history the tax was several times granted for a term of years. But ever since 1860 it has been an annual impost, which would expire with the close of the fiscal year if it should not be renewed by Parliament. This annual renewal affords an opportunity to adjust the rate of the tax to the condition of the finances. If, for instance, the revenues are insufficient the necessities of the government may be provided

¹The tax at that time was low, the rate being only three pence in the pound. The repeal would have involved a sacrifice of something less than five and one-half millions of revenue. Gladstone's programme included other relief from taxation which altogether would more than have exhausted the surplus. He proposed to restore the revenue by certain contemplated reforms in taxation, the nature of which he did not divulge at the time. But it seems that he had in mind an enlargement and reconstruction of the death duties.

for by adding another penny to the rate. If there is an excess of revenue the country can be relieved from unnecessary taxation and the accumulation of idle funds in the treasury forestalled by taking off a penny. In this way the tax has repeatedly proved to be a highly convenient resource, of which the Chancellor of the Exchequer has availed himself both when he was confronted with the prospect of a deficit and when he was in the more fortunate position of having a surplus at his disposal. Hence in the English budget the income tax has served as a sort of regulator or adjustable element by means of which a close correspondence between revenue and expenditure can readily be maintained. This explains why the rate has undergone such frequent changes. For a number of years after 1842 the tax was kept at 7 pence in the pound, or a little less than 3 per cent. During the Crimean War it was increased to 16 pence; and since that period changes have been made every year or two. The lowest point was reached in 1875, the rate then being only 2 pence in the pound. Since 1880 it has varied from 5 to 8 pence.

From time to time changes have likewise been made in the exemptions and abatements which are granted to the possessors of small incomes. In recent years the range of these abatements has been very much extended, and in effect the tax has thereby been made progressive as regards incomes between £160 and £700. Incomes under £160 are wholly exempt and incomes above £700 bear the full rate of the tax without any relief or abatement.

In other respects the tax has undergone hardly any changes of importance since it was first introduced. In its main features it is the same to-day that it was ninety years ago; and even in details the changes have been comparatively few. The assessment is still for the most part regulated by the Act of 1842, and that Act is in turn a close reproduction, in form as well as substance, of the Act of 1807.

That the English income tax should have been in this way retained and perpetuated until it has become apparently a permanent institution seems to establish a certain presumption in its favor. To be sure, in politics and finance, however it may be in the realm of nature, mere survival can hardly be said to constitute any very conclusive proof of fitness. Conservatism or other and perhaps worse influences may, as we know too well, perpetuate old institutions after they have become ill-adapted to changed conditions or even laden with abuses and injustice. The system of state and local taxation in the United States might be cited as a case in point. But there are no indications that the English income tax is thus becoming antiquated or that it contains such inequalities or defects as would justify a demand for its abolition or radical reform. Like most taxes, it has first and last given rise to complaint on the part of the taxpayers and to adverse criticism by statesmen, politicians, and writers on finance. Such criticism can by no means be dismissed as altogether unjustifiable. The tax has its defects, which would have to be taken into consideration were we to attempt to pass judgment on its general

character and test its merits either by the standard of an ideal system or by comparison with other existing taxes, which, in turn, will be found to have other or similar defects. But however faulty or imperfect the tax may be, it has successfully withstood all criticism and opposition. Movements for its abolition or its reconstruction on different principles have, indeed, been set on foot, but they have not met with much support. Twice in the course of its history it has been made the subject of investigation by Parliamentary Committees,—once in 1851 and again in 1861; but neither committee reported in favor of making any changes, and for the last twenty-five years or more there has been little to encourage any expectation that the tax will be abolished or will undergo any fundamental revision.¹ Apparently the income tax has come to stay and is generally accepted as a justifiable and, on the whole, fairly satisfactory impost.

This result is no doubt due to a variety of causes. The tax is, as we have seen, a highly convenient fiscal resource for the government. It is regularly productive of a large amount of revenue, and can be made to respond quickly to the needs of special emergencies.

¹ Of the proposed charges which were urged upon the attention of the committees the most important probably was one for distinguishing between "spontaneous incomes" and "industrial incomes", meaning by the former the incomes derived from capital and by the latter those which are the reward of labor or personal exertions. It was proposed to tax industrial incomes at a lower rate. The best statement, perhaps, of the reasons for not making any such distinction or any other fundamental alterations in the tax is found in Mr. Gladstone's budget speech of 1853.

Taken in connection with the other portions of the English system of taxation it conduces to a just distribution of the public burdens and carries out the generally accepted principle that taxes on articles of general consumption should be supplemented by direct taxes on property or income. Politically it occupies a strong position since, in its incidence, it is confined mainly to the wealthy or well-to-do classes, which constitute but a small proportion of the total population; and consequently there will be little disposition on the part of the great majority of voters to join in any movement for its abolition. But after all due allowances have been made for these factors it will be found, I think, that the success of the tax in surviving the test of experience is in no small degree due to the method by which it is assessed and the manner in which the assessment is carried out through the agency of competent officials. Probably this as much as anything else explains why, notwithstanding the great changes which have taken place in economic and industrial conditions, and the effects which these changes have produced on the forms in which property is held and the way in which the income of society is produced and distributed, the income tax has continued to be assessed, producing apparently better results and giving rise, on the whole, to less complaint at the present time than it did in the earlier period of its history.

II.

GENERAL CHARACTER OF THE ASSESSMENT.

The five Schedules.—For the purposes of the assessment the different kinds of taxable income are classified under five different divisions or schedules :

Schedule A covers the income arising from the ownership of land or houses. It includes the rental value of premises occupied by the owner as well as the rents received by the landlord from the tenant.

Schedule B applies to the income from the use or occupation of land, *i. e.*, the income received by the cultivator of the land, whether he is the owner or the tenant.

Neither of these schedules, it may be well to observe, applies to land or buildings used for industrial or business purposes. The income derived from such sources would be included and assessed under the earnings of the business in Schedule D.

Schedule C comprises the interest, annuities, or dividends payable in the United Kingdom on government securities, British, colonial or foreign.

Schedule D includes the income from trades, professions and business, from colonial or foreign possessions, from the stock or bonds of colonial or foreign corporations, and from any other sources which are not specifically included in any other schedule.

Schedule E consists of the salaries, annuities, or pen-

sions received by the officers and employees of the state and of incorporated companies.

This classification is not employed for the purpose of making any distinctions in the rates at which the different kinds of income are taxed. So far as the rate is concerned all income is treated alike.¹ The distinctions relate to the manner in which the income is assessed. It would seem that those who framed this measure of taxation came to the conclusion that that process of assessment which was calculated to produce the best results when applied to one form of income could not, without more or less modification, be as advantageously applied to another. At any rate we find that the assessment is regulated by distinct rules for the different schedules, and that there is consequently considerable diversity in the process and the machinery by which the income is ascertained and taxed. So this classification may be regarded as having been devised with a view to adjusting the process of assessment to the kind of income to be assessed.² The result is a complicated system. Sim-

¹In the case of Schedule B there is a formal but not a real exception. The rate here is levied on the annual value of the land. But the taxable income is represented by a fractional part of the annual value. Accordingly the rate levied is a corresponding fractional part of the rate for the other Schedules.

²It cannot be said, however, that the classification is altogether consistent with the principle on which it is apparently based. For it will be found that in some instances varieties of income which are classified in the same schedule, are assessed in different ways and by different machinery; and conversely that varieties of income which are classified in different schedules are assessed by the same machinery, and in the same way. For instance, the income from railways, which is classified in Schedule D, really belongs in a distinct class so

plicity has been sacrificed in order to secure this adaptation of the means to the end.

The Method of Assessing the Sources of Income.—In all this diversity, however, one underlying principle has been introduced and applied so far as practicable. It is the principle of assessing the sources of income. This constitutes the distinguishing feature of the English income tax. So far as practicable the income is assessed where it arises and the tax is collected by stoppage at the source. Thus the tax on the landlord's income is assessed to and collected from the tenant, who then deducts it from the rent. In like manner the creditor's income is reached by an assessment upon the gross income or profits of the debtor, who deducts the tax from his interest payments. The right to deduct the tax from rent or interest is conferred by statute, and any contract intended to abrogate it is void.¹ The stockholder's income is reached by assessing the tax upon profits of the corporation, and thus producing a corresponding diminution in the dividends which he receives.

far as the process of assessment is concerned ; then again, the salaries classified in Schedule E, fall into two distinct groups assessed by different machinery and by different rules. But it will generally be found that such inconsistencies were either not present, or else not very prominent, when the classification was first prepared ; they are for the most part the result of later developments, and have been suffered to remain probably because they do not give rise to any practical disadvantage. But they make it inconvenient to adhere strictly to the classification by schedules in describing the process of assessment, and consequently in the presentation of that subject in this monograph, a somewhat different classification has been followed.

¹ There is, furthermore, a penalty of £50 for refusing to allow the deduction. Income Tax Act, 1842, §§ 102 and 103.

The five schedules constitute a classification which has been prepared with a view to reaching the sources of income so far as possible. The diversity in the nature of the sources necessitates considerable diversity in the process and machinery by which this principle of assessment is applied.

This method of assessment makes the tax which has been adopted in England quite different in form at least from the income taxes of other countries. Writers on public finance have, indeed, been disposed to deny that it could properly be termed an income tax. Gladstone described it as a system or code of taxation rather than a single tax; Wagner calls it "*eine einkommensteuerartige Zusammenfassung eines Systems von Ertragssteuern*," and Bastable, referring to the "composite" character of the tax, says "the five schedules may well be regarded as so many distinct taxes since they deal with different kinds of revenue. The connection between them comes out only in cases of exemption or abatement." The discussion of this question of terminology or classification lies somewhat outside the scope and purpose of this monograph. But it may be said here that the English income tax is, at any rate, a tax which is intended to reach in its final incidence all individual incomes which exceed a certain minimum limit and exact from them a contribution apportioned to their size. But unlike most income taxes it is, as we have seen, not levied directly upon the aggregate net income of each individual person, but so far as possible upon the sources from which the individual incomes are derived. At the same time

the ultimate distribution of the income arising from the different sources is not treated as a matter of indifference; the diversity in the amounts accruing to different persons is taken into account by granting exemptions or abatements to those whose aggregate incomes from all sources fall within certain specified limits. So the tax is not, strictly speaking, what the German writers on finance would call an *Objectsteuer* or tax on objects. It is rather in the nature of a personal impost. The individual taxpayer is treated as a contributor to the expenses of government and the attempt is made to regulate his contribution with reference to his circumstances or wealth as indicated by the size of his income. In this respect the tax carries out the idea of the ordinary income tax.

There are two important advantages which the English method of assessing income at the source possesses over an assessment upon individual incomes. In the first place the taxpayer is, as a rule, relieved from the necessity of disclosing for the purpose of taxation the exact amount of his income. He is required, to be sure, to disclose the gross amount which passes into his hands from certain specified sources; but he need not distinguish what proportion of this is *his* income, to be expended as he pleases, and what proportion he is required to pay over to other people; nor need he reveal how much income he receives from other sources. It is only when he wishes to claim the exemption or abatements which the law allows on individual incomes which come within certain specified limits that he is obliged to

give a complete and exact statement of his income. Leaving such cases out of account it will be found that under this system of taxation a resident of England will be called upon to declare the rental value of the house which he occupies or the farm which he cultivates; he will likewise be required to declare the amount of income yielded by any business, trade, or occupation in which he may be engaged, and the amount received without deduction of the tax from any foreign investments; but he need not state how much of the sum so declared is absorbed by payments of interest on personal debts or borrowed capital or by payments of rent; and he need not reveal how much income he derives from the stock or bonds of domestic corporations, or from securities of the British government, or from lands or houses owned by him and leased to tenants. Consequently his aggregate net income may be a good deal more or it may be a good deal less than the sum which he is required to declare.

The other advantage which the system possesses is found in the ease and certainty with which it reaches the income subject to taxation. It is obvious that the opportunities for evasion will be greatly diminished, or entirely removed, if the income can be taxed before it comes into the hands of the person who is entitled to enjoy it; or, if there is still sufficient opportunity for evasion, the inducement to take advantage of it may be lacking so far as the person who is held responsible for the tax and required to make a return of the income is concerned. Under this system of assessment there is,

in fact, a large amount of income in regard to which evasion is impossible. This is the case with the income paid out of the revenues of the state which imposes the tax. In the English system the tax on public annuities and on dividends or interest on the public debt is simply deducted from these payments as they are made. In the same way the tax is withheld from the salaries and pensions paid in the public service. Hardly less certain is an assessment on the profits of corporations in reaching the incomes of the stockholders and bondholders.

The history of the English income tax affords a striking proof of the better results which can be secured by this system as compared with a tax levied on the final recipients of the income. The income tax introduced by William Pitt in 1798 was of the latter description. It was assessed upon the aggregate net income of each individual taxpayer. But in 1803, as already stated, the present method of assessment was introduced. That those who introduced it did so with full recognition of the advantages which it was calculated to secure is evident from the following extract taken from a contemporary government publication :—

“As the former duty [Pitt's income tax] was imposed on a general account of income from all sources, the present duty [the tax of 1803] is imposed on each source by itself in the hands of the first possessor, at the same time permitting its diffusion through every natural channel in its course to the hands of the ultimate proprietor. Instead of the landlord and the various claimants upon him in succession it looks to the occupier only. Instead of the creditor it looks to the fund from which the debt is answered. In place of a complicated account collected from various sources from which the income of an individual is derived it applies to the source itself to answer for the increase. By these means its object is attained with more facility and

certainty, and with less intricacy and disclosure, diminishing the occasions of evasion by the means of exaction ; thus the charge is gradually diffused from the first possessor to the ultimate proprietor, the private transactions of life are protected from the public eye, and the revenue is more effectually guarded." (Quoted in the Int. Rev. Rep't of 1885, p. 73.)

The improvement as regards the yield of the tax was very marked. Pitt's income tax assessed at a 10 per cent. rate had produced about £5,800,000 annually. The tax of 1803, which was assessed at one-half that rate and with the same exemptions, yielded only a million less revenue, and in 1806, when the rate was again 10 per cent., the yield was £11,600,000, or just double what the earlier tax had produced. Without any further changes in the rates the yield increased to £12,000,000 in 1808, to over £13,000,000 in 1810, and over £14,000,000 in 1814. It cannot, perhaps, be maintained that this is a fair test of the relative productivity of the two systems since it is quite likely that the form of income tax adopted by Pitt can be made to produce much better results than he secured by it. However that may be, it requires no very extended investigation or wide experience to prove that there is a large mass of income which can be assessed at its source much more easily than at its destination. One need only consider the simplicity of an assessment upon the earnings of a corporation as compared with the difficulty of finding out and taxing this income after it has been distributed among the individual holders of the stocks and bonds. In the cases of which this is a type the sources are few and easy to get at while the recipients are many and hard to find.

It is not possible, however, to apply this principle of assessment at the source of all kinds of income. In the first place the source may be inaccessible to the government imposing the tax. This is the case with the income from investments or possessions in foreign countries or in other states. But while this income cannot be reached at its source, the attempt is made, under the English system, to reach some part of it on its way from source to destination by requiring any banker or agent in Great Britain who may be entrusted with the payment of interest or dividends on foreign securities to account for and pay the tax on the sums passing through his hands in this way. Again there is considerable income which may be said to remain where it arises, the source not being distinguishable from the destination. The "first possessor" of it is also "the ultimate proprietor". This is generally true of the incomes obtained by the exercise of a trade, the practice of a profession and the private, as distinguished from the corporate management of business in general. It is also true of the income derived from the capital employed by the owner in his own profession or business; and of the income represented by the rental value of land or houses in those cases in which the owner is also the occupier.

As regards these descriptions of income, then, it is not possible to distinguish for the purposes of taxation between source and destination. The assessment will have to be made upon the person who receives and enjoys the income and who will consequently profit by

any evasion of the tax. But while in these cases the person on whom the tax is assessed is not without the inducement to evade it, he may, nevertheless, lack the opportunity. Whether evasion is possible and easy or not will depend upon circumstances and particularly upon the character of the income. The assessment of houses and lands in the locality where they are situated, or of the income which they represent, is always a comparatively simple matter, affording little chance for evasion whether the tax be levied upon the owner or the tenant; and under the English system the assessment of the farmer's income is equally simple, because for the purpose of taxation the income is assumed to be equivalent to a certain proportion (one-third as the law now stands) of the annual or rental value of the farm, so that ordinarily it is not necessary to undertake to ascertain the profits which the farmer actually obtains.¹ Then, too, many of the moderate or smaller incomes earned in a trade, profession, or business can be estimated with so close an approach to accuracy that there is practically little chance for concealment.

On the other hand there are many cases in which an accurate or adequate assessment is hardly possible without the assistance of information furnished by the person who possesses the income on which the tax is to be levied. Here both the inducement and the opportunity to evade some part of the tax are present and are, as

¹ Since 1887 the farmer has had the option, however, of being assessed upon the profits actually received from his farm; but he does not generally avail himself of this alternative, perhaps because it is not often for his advantage to do so.

it were, coincident,—the person who has the opportunity being the person who profits by the evasion. There is, in fact, considerable income which will hardly be discovered and taxed unless the recipient of it is honest enough to reveal it. This applies to the returns from foreign investments where the tax has not been deducted by any agent and must, therefore, be collected, if it is collected at all, from the investors themselves. In other cases the existence of the income may be obvious enough, but its amount cannot be accurately or perhaps even approximately estimated unless the assessors can avail themselves of the taxpayer's knowledge of his own affairs. This is, to a considerable extent, true of the larger professional and business incomes.

The opportunity for evasion, then, which is, perhaps, the strongest objection that can be urged against the direct taxation of income, has not been entirely eliminated under the English system, but its scope has been very much restricted. Probably more than four-fifths of the tax collected is assessed in such a way or under such conditions that evasion is, broadly speaking, out of the question. This estimate includes all the tax assessed in Schedules A, B, C, and E, and more than half of that in Schedule D. But as for the remainder, it is assessed under conditions which do not wholly preclude the possibility and likelihood of more or less evasion, the income being of such a nature that the assessors are, to some extent, dependent upon the declarations which are required of interested taxpayers. Consequently, as

regards this portion of the tax, the problems and difficulties which are involved in securing reliable declarations and making an adequate assessment are very much the same as those which arise in connection with the other and more usual form of income tax which is assessed upon the aggregate net incomes of the individual taxpayers ; and it will be found, in fact, that the process and machinery of assessment employed in Schedule D would be equally applicable to a tax which was wholly assessed upon the individual owners of the taxable property or income.

III.

THE MACHINERY OF ASSESSMENT.

When we come to examine the administrative machinery by which the tax is assessed we find that there are two distinct sets of officials: one which is appointed by the central government and represents primarily the interests of the treasury; and another which consists of local commissioners and officers independent of the central government and standing in close touch with the taxpayer.

The administration of the income tax, like that of all other internal taxes, is under the general oversight and direction of the Commissioners of Inland Revenue, or, as they are collectively called, the Board of Inland Revenue. These commissioners are appointed by the Crown. But within every local district the assessment is under the charge of an independent local board, viz., the Commissioners for the General Purposes of the Income Tax, commonly known as the General Commissioners. They are selected from the Land Tax Commissioners. This raises the question, who are the Land Tax Commissioners?

The Land Tax Commissioners.—The land tax goes back to the reign of William and Mary. The Land Tax Act, which was passed in 1692, directed that the persons named therein should be commissioners for executing the act for the several counties, boroughs,

towns, and places therein mentioned. From that time to the present, land tax commissioners have been named or appointed by acts of Parliament, which are called name acts, and are passed from time to time as occasion may require. Generally, however, they are passed at the first session of each new Parliament. But it would be a mistake to suppose that the commissioners are really selected by Parliament or even nominated by the government. The passage of the name act by Parliament is a purely perfunctory proceeding; nor is the list of names prepared by any government officer although the bill is nominally introduced by the Chancellor of the Exchequer and the Secretary to the Treasury. In practice the selection of names rests mainly with the land tax commissioners themselves. But the first step towards the preparation of the bill is usually taken by the Board of Inland Revenue, which sends out a circular to the clerks of the land tax commissioners reminding them that a name act is to be passed at the coming session of Parliament and suggesting that they prepare a list of names of men in their districts who are qualified to act as commissioners and forward it to the member of Parliament for the county. The Board, however, has no authority over the commissioners or their clerks, but it takes this precautionary step in order that the matter may not be overlooked. The commissioners might ignore the circular if they chose; but, in fact, the list is usually prepared by them or their clerk in response to this suggestion and is then forwarded to the member for the county, who, after perhaps making some additions of his

own to the names, sends it to the Public Bill Office of the House of Commons. There these lists, coming from different districts, are put together in the form of a bill, which is then passed by Parliament as a mere matter of course and constitutes the Name Act. As regards the manner of their election then the commissioners are a good deal like a close corporation.

The number of land tax commissioners is not limited. There is a property qualification required for the office, viz., the possession of a freehold, copyhold or leasehold estate having an annual value of not less than £100. Justices of the peace are *ex officio* land tax commissioners. A commissioner receives no pecuniary remuneration; there is usually, however, no reluctance about accepting the office, for it carries with it some degree of honor or recognition and involves very little labor or responsibility. In fact the majority of land tax commissioners do not take the trouble to exercise the functions of their office at all. Perhaps not more than one-third of those who are appointed commissioners really act as such.

The General Commissioners.—Now these land tax commissioners in each district select from their own numbers the commissioners for the general purposes of the income tax who, as already stated, have charge of the assessment within the district. The districts, it may here be explained, are rather arbitrary divisions of the county which were made when the original Land Tax Act was passed and have been retained with few alterations down to the

present day. The number of general commissioners in each district is by statute¹ limited to not more than fourteen or less than three. A number of other land tax commissioners are selected in the same way for the purposes of filling vacancies that may occur on the board of general commissioners. They make up what is termed the vacancy list. But the office of general commissioner being, like that of land tax commissioner, a permanent one, vacancies will arise only as commissioners resign, die, or become for any other reason disqualified to act. Whenever that happens the remaining general commissioners in the district choose new commissioners from the names on the vacancy list. Then this list is made up or renewed from time to time, as occasion requires, by the land tax commissioners.²

The property qualification for the office of general commissioner is the possession of real or personal estate of an annual value of not less than £200. A commissioner receives no pay for his services, but there is a certain degree of local dignity associated with his position and he is exempt from jury duty and from

¹ 28 Vict. c. 30, § 5.

² In some cases of the principal towns or cities the magistrates and justices of the peace appoint a certain number of commissioners to act with those appointed by the land tax commissioners. In the city of London two general commissioners are appointed by the mayor and aldermen out of a list of eight names presented by the common council; two others are appointed by the Bank of England; and according to Act of 1842 one other was to be appointed by each of the following incorporated companies: the Royal Assurance Company, the London Assurance Company, The East and West India Dock Company, the London Dock Company, and the St. Catherine Dock Company. But some of these companies are no longer in existence.

serving in parish or ward offices. So that while the acceptance of the office is voluntary there is usually little difficulty in finding properly qualified men who are ready to accept it.

The general commissioners, then, are usually well-to-do if not wealthy property owners resident in the district for which they act. They are not responsible to any higher administrative authority; and they do not owe their office to the local electorate on the one hand or to the central government on the other. Their position is consequently one of great independence. But since they are property owners and taxpayers in the district in which they act and are not officers of the Central government, it might be supposed that they would be inclined, in the exercise of their office, to adopt the point of view of the taxpayers rather than of the Exchequer; and, indeed, the institution of local commissioners was intended to render the tax less obnoxious to the taxpayers by protecting them against the possible rapacity of the government and furnishing a guarantee that the assessment would not be conducted in an inconsiderate or unduly rigorous manner. At the same time it cannot be said that the commissioners do not show a due regard for the interests of the Exchequer.

The Additional Commissioners.—The general commissioners are authorized to appoint additional commissioners to act in connection with the assessment under Schedule D. These officers likewise serve without any pecuniary compensation. The property qualification is an estate of one-half the value of

that required for the office of general commissioner. The number of additional commissioners is not regulated by statute, but is left to the discretion of the general commissioners, who appoint as many as they think requisite, taking into consideration the size of the district. Two additional commissioners are, however, always sufficient to constitute a quorum no matter how many may have been appointed.

The general commissioners may, if they choose, dispense with the appointment of additional commissioners and discharge the duties of the office themselves. In that case no general commissioner is permitted to take part in the hearing of an appeal against an assessment which he made while acting as additional commissioner.

The Assessors and Clerks.—The general commissioners appoint the assessors of the income tax. Usually two assessors are appointed for each parish. They receive a salary which is graded according to the amount of work to be done in the parish. The appointment is an annual one. There is a fine of £10 for refusing to accept the office, but this penalty is, in fact, never imposed. Presumably no one would be appointed who had not already signified his willingness to accept.

The general commissioners also appoint some person to be their clerk and likewise clerk to the additional commissioners. This is again an annual appointment and the office commands a salary.¹ Besides performing

¹ Formerly both clerks and assessors were paid by "poundage,"—that is by a percentage on the assessment. This was sometimes the occasion of complaint on the part of the public because it was thought to act as an inducement to these officers to make large assess-

the ordinary clerical duties of conducting correspondence, keeping records, taking charge of papers, etc., the clerk acts as legal adviser of the commissioners. Therefore a solicitor is usually selected for the office. Upon him devolves the preparation of a case whenever there is an appeal to the courts against a decision of the general commissioners.

This completes the list of local officers employed in the assessment. It now remains to give some account of the other set of officials who derive their office and authority from the central government.

The Board of Inland Revenue.—Mention has already been made of the Commissioners of Inland Revenue, who constitute the Board of Inland Revenue. These officers are appointed by the Crown, that is to say by the ministry, and are removable at pleasure. But practically the office is permanent, being unaffected by ministerial changes. Usually there have been five commissioners, although just at present there are only four. The salary of the chairman is £2,000 annually; of the deputy chairman, £1,500; and of the other commissioners, £1,200. Their offices are at Somerset House in London.

The Special Commissioners.—Then there are the Commissioners for Special Purposes, or, Special Commissioners, who, as the title of their office implies, are assigned certain specific duties to discharge in commitments. So partly in deference to this impression and partly from motives of economy the "poundages" were a few years ago commuted to salaries. The change was effected by the passage of the "Taxes (Regulation of Remuneration) Act," in 1891.

nection with the assessment. The members of the Board of Inland Revenue are *ex officio* special commissioners and a number of others are specially appointed by the Treasury. There have usually been three of these specially appointed special commissioners, and they are the ones who, in fact, discharge the duties of the office. For it hardly ever happens that a member of the Board of Inland Revenue is called upon to act in his capacity as special commissioner. But the Board would very likely be consulted in a case of unusual difficulty or where there was a serious difference of opinion among the other special commissioners.

Surveyors and Inspectors.—Throughout the country the Board of Inland Revenue, and thus indirectly the Central Government, are represented by a set of officers known as surveyors of taxes. The surveyor acts within a defined district. But the surveyor's districts, it may be well to state, are by no means co-terminous with the general commissioners' districts. Usually a surveyor's district embraces several commissioners' districts. The City of London is an exception, where several surveyor's districts are embraced in a single commissioners' district. The division of the country into surveyor's districts is under the control of the Board of Inland Revenue, which creates new districts from time to time as the needs of the work may require.

The surveyors act under the immediate direction and supervision of the inspectors. These are officers at Somerset House who, as a rule, have been promoted to

this position after long service and experience as surveyors. In supervising the work of the surveyors they act under the authority and control of the Board of Inland Revenue, to which all matters involving special difficulties or questions of general policy would be referred.¹

¹A more detailed account of the organization of tax surveying branch of the Inland Revenue Service is given on p. 354 below.

IV.

THE PROCESS OF ASSESSMENT.

It may be well to state at the outset that the process of assessment, as here described, is that which is followed in England and Wales. In Scotland it is substantially the same except that, as regards a considerable portion of the country, the office of assessor has been abolished and its duties assumed by the surveyor. In Ireland, however, there are neither local commissioners nor assessors. The assessment is entirely in the hands of government officers, the surveyor performing the duties which in England devolve upon the assessor and the special commissioners taking the place and discharging the functions of the district commissioners.

I. PRELIMINARY STEPS.

Preparatory to making the assessment the assessor leaves at every dwelling house and place of business in the parish for which he acts a set of blank forms for making such returns as are required of the public by the Income Tax Act. Every resident of the parish is thereby called upon to make a return of such income or property as is assessable to him under the different schedules; he is likewise required to return a list of persons chiefly employed in his service—giving their places of residence when they do not reside with him;—also a list of any lodgers in his dwelling house; a list of

any persons for whom he may act as agent, trustee receiver, or guardian, as regards any income classifiable in Schedule D; and, finally, a description of any company or corporation for which he may be answerable as treasurer or auditor. The list of employees, it may be observed, need not include the names of those whose incomes are below the limit of exemption. A few days,—not more than seven,—after distributing the blank forms the assessor posts in some public place, usually at the parish church, a general notice calling upon the inhabitants of the parish to send in the lists and returns which are required of them. This constitutes a sufficient notification legally so that the failure to receive a blank form or special notice does not relieve any one from the obligation of making the return. This rule, however, does not apply to persons who are not liable to assessment so far as returns of income are concerned. Such persons are required to make a return if specially notified but not otherwise. The returns are to be sent in within twenty-one days after the posting of the general notice.

The penalty for neglecting or refusing to comply with the requirements in regard to sending in returns is £50, if sued for in the courts, or £20 and a threefold increase of the tax if sued for before the district commissioners. It seems rather curious certainly that any distinction in the penalty is made to depend upon the tribunal before which the offender is tried. It is a little remarkable, too, that there should be no distinction in regard to the kind of return which is in question; yet so far as the provisions of the statute go, the failure to send in a

list of lodgers involves the same penalty as the failure to make a return of income. In the administration or enforcement of the law it is, however, possible to make some distinctions; and it is noticeable that the different blank forms which are used exhibit some diversity in referring to these penalties. In the ordinary forms for making returns of income under the different schedules the alternative penalties are explicitly stated.¹ In the form to be filled out by the treasurer of a corporation giving the list of employees mention is made of the £50 penalty but nothing is said about trebling the tax, perhaps because the person who makes the return in this case is not the person whose tax is in question. The ordinary blank for the lists of lodgers, employees, etc., refers to a penalty but does not state what it is.

The statutes seem to impose no distinct penalty on false statements in the regular returns of profits, rent, or income. But there is a section in the Act of 1853 (§ 56) which imposes a penalty of £50 on any person who "shall knowingly and wilfully aid, abet, or assist, or incite or induce any other person to make or deliver any false or fraudulent account, statement, or declaration of or concerning any profits or gains chargeable under this Act or of any yearly rent or value of any lands, tenements, or hereditaments." Then in appeals against the assessment, in claims for abatement or exemption, and in certain other specific cases, which will be referred to in their proper connection, false statements are punishable by explicit penalties.

¹ For temporary exception in regard to the Schedule D form see below, p. 317, foot note.

2. THE ASSESSMENT OR VALUATION OF LAND AND HOUSES UNDER SCHEDULES A AND B.

Schedule A, it will be remembered, comprises the income arising from the ownership of land and houses, or what may be termed the landlord's income, while Schedule B consists of the income arising from the occupation of land, or the farmer's income. There is one and the same process of assessment for both schedules. The tax is determined by reference to the "annual value" of the property. "The 'annual value' for purposes of the income tax may in popular language be described as the best rent that can be obtained when the landlord and tenant respectively bear their own burdens." (Inl. Rev. Rept. 1865, p. 80.) In Schedule A, the tax rate is levied upon the gross annual value¹ after a deduction of one-eighth² on lands inclusive of farm houses, and one-sixth on other houses, as an allowance for repairs and insurance; in Schedule B, it is levied upon one-third the annual value as representing approximately the average profit from the use of the land.

The tax in both schedules is, as a rule, charged to

¹ The term "gross (annual) value" in the more precise language of the Statutes, is defined to mean "the annual rent which a tenant might reasonably be expected, taking one year with another, to pay for an hereditament, if the tenant undertook to pay all the usual tenant's rates and taxes, and the tithe commutation charge, if any, and if the landlord undertook to bear the cost of repairs and insurance and other expenses, if any, necessary to maintain the hereditament in a state to command that rent." Valuation (Metropolis) Act, § 4.

² Finance Act, 1894, § 35.

and collected from the occupier. If he is not the owner of the property but only the tenant, he is authorized to deduct the tax under Schedule A from the rent which he pays. But the tax in Schedule B is intended to rest upon the occupier and therefore cannot be deducted from the rent. The exceptions to the rule of assessing the occupier comprise the cases of dwellings having an annual value of less than £10 a year or let for a shorter period than one year, and the case of houses let in apartments. In these cases the tax is assessed upon and collected from the owner.

In describing the machinery and process of assessment it is necessary to distinguish between the metropolis of London and the rest of England. Down to 1869 there was the same system for the entire country. But in that year a new system was introduced in London. We shall first describe the original system which is still followed outside the Metropolis.

A. THE ASSESSMENT OUTSIDE THE METROPOLIS.

The assessment here is under the charge of the district general commissioners, and is carried out through the agency of the assessors acting in coöperation with the surveyors.

To begin with, the assessor, as we have seen, distributes in the parish the blank forms for returns. A return giving a description of the property, its annual value, etc., is required of every occupier. This requirement may, as already stated, be enforced by penalties; but in practice that would hardly ever be done. Usually there

is not much reluctance to making a return under these schedules. Still there are a considerable number of occupiers who do not respond to this notification, and some of them, as might be expected, are too illiterate to fill out the blank form in a proper manner. But in the absence of a return it is usually not difficult to obtain by other means all the information which is needed for the purposes of the assessment. Nevertheless, if the first notification is ignored, the surveyor, when he comes to examine the assessor's list of occupiers, always sends out a second. But as a rule no further steps are taken after that; for it is hardly worth while to follow a taxpayer up in order to get a return under these schedules.

The returns that are received, however, are of great assistance on account of the information which they furnish in regard to the prevailing rents in the neighborhood. In the case of a leased dwelling house, the tenant's return of rent can be accepted as reliable because he has no inducement to conceal or understate it. The tax, whatever it may amount to, does not in the end come out of his pocket. It is assessed to him and paid by him in the first instance, but, as already stated, he deducts it from his rent. So with the information which the tenant's returns furnish as to the rent paid for a number of houses, there is usually little difficulty in estimating the rental value of other houses in the same neighborhood which may be occupied by the owners or for which no returns may have been received.

When it comes to the assessment of a leased farm the

tenant is by no means a disinterested party. Because, in this case, besides the landlord's tax under Schedule A, there is the tax on the occupier under Schedule B, which is likewise determined by the annual value, but is intended as a tax on the profits from the farm and, therefore, cannot be deducted from the rent. Hence it would be to the tenant's as well as the landlord's advantage if the annual value were underestimated in making the assessment. But although in these cases the inducement to understate the rent is not lacking, yet generally speaking, the returns which are received can be accepted as trustworthy. A false return could hardly be made without the knowledge and connivance of the landlord. For when the tenant came to pay his rent he would be required to produce his tax receipt in order to claim the deduction of the tax which he has paid under Schedule A. That would show at once whether he had been assessed on the full rental or not; and while it is quite conceivable that the landlord, who would likewise profit by this deception might, on that account, sanction it, in actual practice that would rarely happen. In any case, owing to the comparative ease with which the value of visible real estate can be estimated or ascertained, any considerable understatement of the rent could hardly fail to be detected.

The Duties of the Assessor.—When the assessor has received the returns he examines them and enters the particulars (name of the occupier, rent or annual value returned, deductions, etc.) in what is termed the assessment sheet. Where no return has been received or

where he is not satisfied with the amount returned, he is instructed to enter his own estimate of the value of the property. In making this estimate he is authorized and expected to consult the valuation on which local taxes are assessed. This is known as the "poor rate" and is a valuation made by local authorities who have nothing to do with the administration of the income tax. But it is found useful as a guide for the income tax valuation and is copied into the assessment sheet for that reason. It would not do, however, to accept the poor rate as correct without further inquiry; for property is often undervalued to a greater or less extent in the assessment of these local taxes. But when in any given parish the prevailing ratio of the local valuation to the true value has once been ascertained, this knowledge can, of course, be easily utilized in the assessment of any individual property or estate for the purposes of the income tax. The Income Tax Act in fact prescribes rules for determining the value by comparison with the poor rates, and requires that these rules should be followed whenever the value cannot be otherwise ascertained. (Income Tax Act of 1842, § 64.)

So, generally speaking, the assessor, if he is fairly competent and efficient, will have no great difficulty in ascertaining within narrow limits the correct value for the purpose of assessing the tax under Schedules A and B. After he has completed his work he delivers the assessment sheet together with all the returns that have been received to the clerk of the district commissioners,

who in turn submits this material to the surveyor for examination.

The Revision by the Surveyor.—The surveyor has the same means of obtaining information that the assessor had. He has access, that is, to the returns of the taxpayers, and he may compare the assessments with the poor rates, having under the statute authority at all seasonable times to inspect and take copies of or extracts from any book kept by any parish officer or other person concerning the poor rates or any other public taxes or rates. (Inc. Tax Act of 1842, § 76.) Furthermore, with the consent of the general commissioners and on giving two days notice to the occupier, he may inspect and view any property to be taxed accompanied by an expert, who is selected by the commissioners (*Ibid.* § 78). The assessor, it should be added, has also this right of inspection; but it is hardly ever made use of by either officer. With these and other means of obtaining information, the surveyor examines and verifies or corrects the assessment sheet. There are columns in which he is to enter his estimate of the annual value whenever it differs from the assessor's; and he is authorized to "rectify" the assessments "in any particular which in his judgment may be requisite before the commissioners sign and allow such assessments." (*Ibid.* § 75.)

The Duties of the General Commissioners.—The assessment is finally referred to the general commissioners, the statutes providing that when the surveyor has completed his examination the commissioners

shall proceed to take the assessments "into consideration and in case the surveyor shall not have objected thereto, and the said commissioners shall be satisfied that the said assessments have been made truly and without fraud and so as to charge the several properties contained therein with the full duty which ought to be charged upon them respectively, the said commissioners shall sign and allow such assessments: Provided always that in case the surveyor shall object to any such assessment and shall apply for a revision thereof, suggesting in writing to the commissioners any error, mistake, or fraud in making the same, it shall be lawful for the said commissioners to rectify such assessment so that the duty may be fully charged according to the intent and meaning of" the statute. (*Ibid.*, § 79; Taxes Management Act, §56.)

It is hardly necessary and it would not be wise, without the support of some authoritative interpretation of the law, to undertake to define more precisely the powers conferred upon the different officers by these provisions of the statutes. It would seem, however, that, in form and theory, the assessment is made by the commissioners and that they are responsible for it. But, in fact, they never interfere with it or revise it in any way except on appeal by the taxpayers. In the first instance they sign and allow the assessment sheet as it is delivered to them by the surveyor without any alterations or amendments. No entries are made at the time in the column reserved for the "annual value by the determination of the commissioners." Later, after hearing the appeals, they make such entries here as their decisions may necessitate.

All appeals against assessments in Schedules A and B come before the general commissioners for decision ; so that, in form, the appeal is heard and decided by the same body which made the assessment. But bearing in mind the practical operation of the system, as just described, it would be more correct to say that the assessments which are appealed against were made by the assessor and revised by the surveyor. Both the assessor and the surveyor are authorized to attend the hearing of the appeal and give reasons or produce evidence in support of the assessment. But the commissioners are the judges and their decision is final as to the facts involved in the case. On points of law the case may be appealed to the courts on demand of either the taxpayer or the surveyor.

The present practice is to have a new assessment or valuation in Schedules A and B every fifth year. Down to 1888 the assessment had been a triennial one. But it may be well to point out that the period is not determined by any permanent statutory provisions. For since it has become the practice to grant the income tax for only one year at a time, the legislation by which the assessment is regulated would become inoperative after the termination of the year, were it not renewed by special act of Parliament. This renewal is effected by the passage of the annual Finance Act. Under this arrangement a quinquennial period of assessment is easily brought about by inserting in each Finance Act during the last four years of the period a provision that valuation put upon any property in such and such a

year, viz., the first year of the period, shall be the valuation for the current year. Then, in the first year of the next quinquennial period, this provision will simply be omitted and consequently a new valuation will be made. Of course the valuation will have to be revised more or less in the other years in order to take account of changes of occupancy, destruction of property (by fire for instance), reduction of rents, creation of new properties (new buildings or improvements), etc. An assessment cannot, however, be increased after the first year of the period on account of any appreciation which, apart from the effects of improvements, may take place in the value of the property; but on the other hand, if the property depreciates in value the taxpayer may, on appeal, have the assessment reduced. The annual revisions are made by the surveyor under authority conferred by the Finance Act, in which a clause is inserted providing that the surveyor shall act as assessor in the current year. So it is only in the year of a new valuation that the assessor has any duties to perform in connection with Schedules A and B. The surveyor's revisions must, of course, be submitted to the general commissioners for endorsement.

B. THE ASSESSMENT IN THE METROPOLIS.

The distinct method of assessment in the metropolis, to which reference has been made, was introduced by the enactment of the Valuation (Metropolis) Act in 1869 (32 and 33 Vict., c. 67). The object in view is, perhaps, sufficiently explained by the title of the Act.

It was "An Act to provide for Uniformity in the Assessment of Rateable Property in the Metropolis." Under this Act there is but one valuation of real estate within the limits of the Metropolis for all taxes, local as well as imperial. For the purpose of making this valuation an assessment committee is appointed in every union of parishes by local authorities,—viz., by the Board of Guardians for the union. The surveyors of taxes have certain rights and duties in connection with the assessment; but the district general commissioners and the parish assessors have no part in the work.

Preliminary Valuation by the Parish Overseers.—To begin with, a preliminary or provisional valuation is prepared for each parish by the overseers of the poor, with the co-operation of the surveyor of taxes. The overseers send out blank forms to the occupants of houses in the parish for making returns of the rent or annual value. By refusing to make a return the occupant renders himself liable to a penalty of £5; for making a false return the penalty is £10. By the provisions of the statute the returns which are received, together with a copy of the valuation list as prepared by the overseers, must be submitted to the surveyor for examination; and he is authorized and required to enter in the list his own valuation in any case in which he is not prepared to endorse the valuation of the overseers. As a matter of fact, however, he sits with the overseers and assists them in preparing their valuation. He can do so only with their permission; but they are usually

very ready to avail themselves of his judgment and experience.

When the overseers, assisted by the surveyor, have completed their valuation, they must deposit a copy of the valuation list at that place in the parish where the rate books are ordinarily kept. They are required to give public notice of the deposit of such list, and all persons assessed or liable to be assessed for the relief of the poor of such parish (*i. e.*, virtually all householders in the parish) have the right of inspecting the list and of demanding and taking copies of or extracts from it (25 and 26 Vict., c. 103, § 17). After fourteen days from the date of the notice the list is forwarded to the assessment committee of the union to which the parish belongs.

Revision by the Assessment Committee.—The assessment committee will, of course, receive as many of these lists as there are parishes in the union; and any overseer or any ratepayer within the union now has the right to inspect and copy these lists. Objections to the valuations are now in order. These objections may be made to the committee (1) by any overseer or overseers of any parish within the union who "shall have reason to think that such parish is aggrieved by the valuation list of any parish within the union"; and (2) by any person who may feel himself aggrieved by any valuation list on the ground of unfairness or incorrectness in the valuation of any hereditaments included therein or on the ground of the omission of any rateable hereditament from such list. (*Ibid.*,

§ 18). The first class of objections are apparently confined to alleged inequalities in the valuation as between different parishes, while the second relate to the valuation of individual properties.

The assessment committee hear and decide these objections, and at the same time they may make such alterations in the valuations as they deem necessary whether any objection has been made or not. So they combine the functions of a board of revision and a board of appeal. After the valuation list has been revised in accordance with the decisions of the committee, it is redeposited in the parish to which it relates; and where any alterations have been made by the committee, otherwise than in determining an objection, the overseers of the parish must notify the occupier of any property the valuation of which has been increased by such alterations. These alterations are then subject to objection before the committee in the same manner that the original valuations were (*Ibid.*, §§ 19-21; and Val. Met. Act, § 9).

The Position and Services of the Surveyor.—The surveyor of taxes, it should be observed, has the same right of inspecting, copying, and taking extracts from the lists and of objecting to any valuation as is accorded to any person (Val. Met. Act, § 12). But here again he is, in practice, allowed greater privileges than the law confers upon him. For he sits with the assessment committee when they hear objections and revise the valuations. So he is virtually a member with advisory powers both of the board which makes the pre-

liminary valuation,—the parish overseers—and of board of revision and appeal,—the assessment committee. Legally he has no status on either board, nor any voice in its decisions; but it is safe to say that these decisions are, to a considerable extent, influenced if not determined by his opinion.

Appeals.—When the assessment committee have completed their revision of the valuation and have heard and decided all objections, they approve and sign the valuation list. A copy of this list is then sent to the overseers of the parish to which it relates. They deposit this copy at the customary place and publish a notice of such deposit, and of the time and mode of making appeals, and of the grounds on which such appeals may be made (Val. Met. Act, § 15).

There are two courts of appeal:—(1) the “special sessions” and (2) the “assessment sessions.”

There is a “special sessions” for each petty sessional division of the metropolis. It is held by the justices of peace acting in and for such division. They are authorized to hear appeals against “any decision of the assessment committee on an objection made with respect to the unfairness or incorrectness of the valuation of any hereditament” (Val. Met. Act, § 19). These appeals may be made by “any ratepayer and any overseers of a parish so far as respects the valuation list of such parish,” and by “any surveyor of taxes so far as respects the valuation list of any parish in the petty sessional division” (*Ibid.*). The jurisdiction of the “special sessions” is apparently confined to hearing appeals in

regard to the individual properties or hereditaments. For the statute declares that "the justices in special sessions . . . shall not hear any appeal touching any part or alter any part of the valuation list, except the part relating to the value of an hereditament," and that "a decision of such justices and an alteration by them of the value of an hereditament in the valuation list of any parish shall affect only the rights of the ratepayers of such parish among themselves, and shall not in itself in any way alter the totals of the gross or rateable value of such list as determined by the assessment committee." (*Ibid.*, § 20). Appeals affecting these totals can be heard and decided by the "assessment sessions" only.

The court of "assessment sessions" has jurisdiction for the entire metropolis. It is composed of a specified number of justices of the peace, who are appointed by the courts of general or quarter sessions for the several counties of the metropolis and by the mayor and aldermen for the City of London. (*Ibid.*, § 24). This court is authorized to hear appeals against any decision of the assessment committee. These appeals may be made by any ratepayer, any surveyor of taxes, and any overseer with the consent of the vestry of his parish. Moreover, appeals on the ground that the total of the gross or rateable value of any parish is too high or too low, as the case may be, or on the ground of there being no approved valuation list for some parish may be made by any assessment committee, by any overseers with the consent of the vestry of their parish, by any ratepayer, and by any body of persons authorized by law to levy

rates or require contributions payable out of rates in the metropolis. (*Ibid.*, § 32).

When all these appeals have been heard and decided the valuation is completed and remains in force for five years, subject, however, to annual revisions, which are made by the same machinery and in substantially the same way as the original valuation.

3. THE ASSESSMENT OF THE SALARIES AND PENSIONS CLASSIFIED IN SCHEDULE E.

Schedule E includes not only the salaries and pensions paid by the state or municipality, but also those paid by corporations, or joint stock companies, of whatever description. This is the result of a rather broad interpretation of the term, public office, as used in the Income Tax Act.

The Assessment of the Salaries, etc., paid by the Government.—As regards state or government offices the tax is, as a rule, simply deducted from the salaries as they are paid. For the purpose of making the assessment special commissioners are appointed in each of the principal departments of the public service. The appointment is made from among the officers of the department by the head or principal officers. In some of the larger departments, such as post office or admiralty, a number of special clerks, assessors, or assistants are appointed to assist in the work of assessment. They act under the direction of the departmental commissioners. In the assessment of municipal offices the mayor, aldermen, and common council act as commissioners.

The Assessment of the Salaries, etc., paid by Corporations.—The salaries received by the officers and employees of railroads are assessed by the Special Commissioners upon returns made by the railway companies.¹ The tax is then paid by the companies, and by them deducted from the salaries.

The other salaries in this Schedule are nearly all assessed upon the individual officers and employees in the parishes where they reside. This is generally true of the salaries received in the service of all industrial and commercial corporations other than railways. The assessment is made by the general commissioners of the district through the agency of the assessor, and with the coöperation of the surveyor. The procedure seems to be substantially the same as that which is followed in Schedules A and B outside the metropolis. The taxpayer is called upon to declare what he receives from his office or employment. At the same time every corporation is required to furnish a list of its employees with the amount of the salaries paid to them. The particulars obtained from these returns or from other sources are entered in the assessment sheet by the assessor and then submitted to the inspection of the surveyor. Finally the assessment is referred to the general commissioners for their endorsement.

These assessments by the general commissioners cover more than one-half of the total tax in Schedule E. Yet there do not seem to be any very explicit provisions for such assessments in the original Income Tax Act, or

¹ 23 and 24 Vict, c. 14, § 6.

in any subsequent legislation. From a study of the statutes one would infer that the tax in this Schedule was with few exceptions to be assessed at the source and collected by deduction. The clauses in which there is mention of duties to be performed by the general commissioners do not seem to have reference to the ordinary cases of assessment upon the employees of corporations.¹ Probably this is because when the income tax was adopted joint-stock companies did not have the importance and prevalence which they have since attained. There were then only a few great companies which from their size and exceptional character may have made a position in their service seem closely analogous to a government office. But with the multiplication of these companies and their introduction in almost every kind of industry and business, the scope of Schedule E has been gradually enlarged, until it now includes incomes which, from their nature and the method of their assessment, might more properly be classified elsewhere.

In fact, there seems to be no good reason for not classifying the salaries which are paid by industrial corporations with those which are paid by individuals and private firms. In both cases the tax is levied upon and collected from the employees through the agency of the local

¹ Income Tax Act, §§ 146, 155, and 22. It is not meant to imply that the Commissioners act without authority of law in making these assessments; for § 22 provides that "the General Commissioners shall execute this Act in all matters and things relating to duties in Schedule E, not executed by the Commissioners authorized to be appointed for these duties." This, of course, gives them all the authority they require, but the statutes contain no directions as to how these assessments are to be made.

officers of assessment. Salaries of the latter description are, however, classified in Schedule D. As a result of this whenever a private firm is converted into a joint-stock company, the employees are thereby transferred from Schedule D to Schedule E. It is not altogether a matter of indifference to them in which Schedule they are assessed; because in Schedule E it may happen that they are deprived of the privilege, which they would always possess in Schedule D, of being assessed upon the yearly average of three years' earnings.¹ In view of this inconsistency the Board of Inland Revenue have favored changing the classification so as to include the salaries which are paid by joint-stock companies in Schedule D; and a clause intended to effect this change was introduced in the Customs and Inland Revenue bill of 1876. But for some reason it was not received with favor and was withdrawn by the Chancellor of the Exchequer.²

¹ It seems that some of the employees of joint stock companies do have this privilege. In the statement which the Secretary of the Treasury made a few years ago in answer to a question addressed to him in the House of Commons, we doubtless have the accepted interpretation of the law to which the actual practice conforms. He explained that individuals employed in private firms were entitled to make returns for assessment to the income tax on the three years' average. "But," he said, "with respect to employees in joint stock and some other companies, the practice of making their return on the principle of the three years' average is confined to clerks, buyers, salesmen, travellers, agents, etc., the Board of Inland Revenue being advised that managing directors, secretaries and other officers of that standing are chargeable on the income which they actually receive during the year." Debates of 1887. 317 Hansard, 1598.

² The principal objection urged against it was that it would give the employees so transferred an advantage which those still retained in

4. THE ASSESSMENT OF THE INCOME FROM TRADES INDUSTRY AND PROFESSIONS IN SCHEDULE D.

Schedule D, it will be remembered, includes the income arising from trades, professions, and business generally; from foreign possessions and securities; and from other miscellaneous sources. As regards a large portion of this income, the assessment is beset with peculiar difficulties, and it becomes necessary to rely to a considerable extent upon the declaration of the taxpayers. It was for this reason, probably, that the special body of officers known as the additional commissioners was instituted to act with reference to this schedule. It has already been explained that these officers are appointed by the general commissioners from among the property owners resident in the district. Upon these additional commissioners the statute imposes the responsibility of making the assessment in Schedule D, except in those cases, which will be described below, where the taxpayer requests to be assessed by the special commissioners. As for the general commissioners so far as the Schedule D assessment is concerned, they act simply as a board of appeal.

The Services of the Assessor.—The first step in the process of assessment is the preparation of a list of those who are to be served with papers for making returns of income under this schedule. This task devolves upon the assessor. He takes as a basis the list of the previous

Schedule E, viz., government officials, would not possess; then it was said that the cost of collecting the tax would be increased by the change, although in what way is not apparent. 229 Hansard, 1212.

year and revises it, making use of the local directory where there is one, or ascertaining in other ways the changes which have taken place during the year.

Special pains are taken to keep track of taxpayers who have removed from one district to another. The surveyor of the district in which the taxpayer formerly resided always sends a notice to the surveyor of the district to which he has removed. This notice is made out upon a printed form, which is prepared by the Board of Inland Revenue. It shows the profession or trade or the source of income in respect to which the taxpayer was assessed in his former place of residence, and it gives the amount of his assessment and states whether it was based on his own return or on an official estimate. So the taxpayer's record follows him from one district to the other. Then there is a column in the blank form to be filled out by the surveyor to whom the notice is sent, showing what assessment is made on the taxpayer in his new place of residence, and whether it is made on a return or by estimate, and in respect to what sources of income. By this means the new assessment may at a glance be compared with the previous assessment made in the other district. This notice is ultimately returned to the issuing surveyor and there recorded for the information of the inspector.

When the assessor has prepared his list of taxpayers he sends out the blank forms for making returns of income under Schedule D.¹ The form calls for a statement under different headings of all the income received

¹ Cf. Appendix I, A.

by the taxpayer and chargeable under Schedule D, except that on which the tax has already been deducted. Besides his own income, this includes any income for which he may be accountable in his capacity as agent, trustee, or guardian of any other person, or as the treasurer or representative of any firm or corporation. The statement is followed by the general declaration, which the taxpayer signs. It may be well to point out that this is not a declaration under oath. It is simply an affirmation that he has given a full and complete return of income according to the best of his knowledge and belief.

There is a separate form for making returns of profits from mines, quarries, iron works, gas works, etc. ; since the rules by which incomes from such concerns is computed, differ somewhat from the general rules under Schedule D.

It may be stated here that all officers concerned in the assessment of the income tax are under oath not to disclose any particular in any statement or schedule delivered to them in connection with Schedule D.

After sending out the blank forms the assessor posts in some public place the general notice, of which mention has already been made, calling upon the residents of the parish to fill out and return these forms. The taxpayer is required to send in his return within three weeks from the date of the posting of this notice. At the expiration of that period returns will probably have been received from about fifty per cent. of those to whom blanks were sent. The assessor then sends out a second notice or reminder to those who failed to respond to the

first, requesting them to send in their returns within two weeks. The second notice will bring in returns from perhaps an additional fifteen per cent. of those originally notified, and on that assumption there will be a residuum of thirty-five per cent. who are still delinquent. These percentages, although they are not based upon any statistical data, may be accepted as representing approximately the facts of experience. For they are estimates in conformity with the opinions of officials who possess a thorough practical acquaintance with the work of assessment.

The assessor now opens and examines the returns that have been received. He then fills out a form in which he enters the names of all those who have been notified to send in returns and indicates whether they have done so or not, and also distinguishes those who have requested to be assessed by the Special Commissioners, those who claim to be exempt on the ground that their income does not exceed £160, and those who claim the abatement which the law allows on incomes between £160 and £700. The assessor is furthermore expected to enter his estimate of what assessment ought to be made in those cases where no return has been received; but it seems that he does not always do this, and when he does his estimate would by no means be accepted without further inquiry. When he has filled out this form he delivers it to the surveyor.¹

¹ The services of the assessor in this Schedule do not seem to be of so much account as they are in Schedules A and B. This is partly because the assessment of trades and professions is a task of considerable difficulty and responsibility, requiring discretion and a trained judgment such as the assessor does not always possess; the valuation of

The surveyor on receiving the assessor's list sends out another notice to those who have not yet sent in any returns. We have assumed that they constituted thirty-five per cent. of those originally notified. This surveyor's notice usually brings in a few more returns so that the number of delinquents will in consequence be reduced to perhaps twenty per cent.

In the meantime the assessor has delivered the returns which he has received to the clerk of the district commissioners, who thereupon proceeds to make the entries which he is required to make in what is termed the assessment sheet.¹ The clerk then delivers this assess-

land and houses, on the other hand, is a comparatively simple and perfunctory work which he may be trusted to perform in a satisfactory manner under the supervision of the surveyor. Moreover the number of assessments in Schedules A and B is so large that the co-operation of a distinct official for each parish, like the assessor, is almost indispensable. In a representative first-class (surveyor's) district there will be, perhaps, 35,000 or 40,000 assessments in Schedules A and B and only from 4,000 to 6,000 in Schedule D; in a country district there may be something like 20,000 of the former and 1,000 of the latter. In 1895-6 the number of separate properties assessed in Schedule A was 9,248,000 and the number of Schedule D assessments was 503,000. In fact, so far as Schedule D is concerned, the assessor seems to be a somewhat superfluous officer, and a few years ago the government proposed to transfer his duties in this schedule to the surveyor. But there was opposition to the proposal and it was withdrawn without coming to debate in the House of Commons. Cf. files of the London *Times* for August, 1887.

¹ The particulars entered in the assessment sheet comprise the name of the person, corporation, or company assessed; description of trade, profession, etc.; abode or place of business; amounts returned and assessed in three previous years; amount returned in the current year; amount estimated by the assessor; amount assessed by additional commissioners; amount assessed by the general commissioners; deductions and allowances; net amount chargeable with duty; duty payable; notes; explanation of any decrease as compared with previous year; amount of decrease.

ment sheet together with the taxpayers' returns to the surveyor.

Inspection and Revision by the Surveyor.—It now devolves upon the surveyor to examine the returns and consider whether they may be accepted as satisfactory or not, and furthermore what assessment should be made or what steps ought to be taken in those cases where no return has been sent in. This task calls for the exercise of discretion and sound judgment. He usually discusses these matters with the assessor, thus availing himself of the better knowledge of local affairs which that officer, whose duties, it will be remembered, are confined to the limits of a single parish, may very likely possess. If the surveyor is not prepared to accept a return as it stands, he writes to the author of it informing him that the correctness of it has been questioned and asking the favor of an explanation. Sometimes the letter elicits no response whatever; but in the great majority of cases the taxpayer either answers by letter or more often calls at the surveyor's office, and not infrequently the difficulties in regard to the return are satisfactorily explained or disposed of in this way. It may appear on investigation that the taxpayer omitted certain items which ought to have been included in computing his income, or made certain deductions which are not permitted by the law, and he may consent to increase his return accordingly. On the other hand he may convince the surveyor that the return is correct as it stands, and he perhaps produces his books or accounts in support of it. If, however, no agreement results from this confer-

ence, and no information has been received in any other way sufficient to remove the doubts that have been raised in regard to the return, the surveyor brings together such evidence as he can obtain bearing on the question of what assessment ought to be made, and reserves the case for the consideration of the additional commissioners.

Then there are those cases to be considered in which no returns have been received. Some of these can be easily disposed of because the income can be estimated with a good degree of confidence. This would generally be true of the income of a small tradesman, or of the village doctor for instance. It is considered hardly worth while to follow up these taxpayers in order to get a return. Indeed, there are a class of taxpayers, represented by the butcher, the baker, etc., from whom a return is not considered particularly desirable, the fact being that the surveyor has more confidence in his own estimate than in any return he is likely to get. But there are other cases in which it is felt that a return ought to be obtained. There are two alternatives open: one is to threaten or institute proceedings for penalties; the other is to increase the assessment so as to bring in a return or lead to an appeal. Since, however, it devolves upon the additional commissioners to decide what the assessment shall be, no increase could be made without their sanction. But proceedings for penalties might be instituted by the surveyor without referring the question to them. In practice, however, he would not take any such steps until they had been consulted.

The Action of the Additional Commissioners.—We will now suppose that surveyor has completed his examination of the assessment sheet and the returns. He has attempted to settle those cases in which the returns were unsatisfactory by communicating with the taxpayer. Where the attempt has proved unsuccessful and where no return has ever been received he has endeavored to estimate or ascertain by other means the amount of income subject to assessment. But under the law the determination of the assessment rests not with him but with the additional commissioners. They, in the meantime, have appointed a day in which to meet and take the assessments into consideration. When this meeting takes place the surveyor is present; but it may be said that he is there by grace rather than by right. The commissioners could exclude him if they chose. The course which is followed in this matter is dictated by considerations of convenience and not by requirements of law. Under the statute the surveyor has only the right to examine the assessments which have been made by the additional commissioners and “certify” any errors he may discover requiring amendment, and “the additional commissioners, upon sufficient cause being shown,” are “required to amend the same as in their judgment the case shall require.” (Income Tax Act of 1842, § 115). The surveyor, moreover, has the right, “upon sufficient cause,” to “object to the amount of duty charged by the additional commissioners,” and he must state “such objection in writing” and notify the party assessed; the case then goes before the general

comissioners for decision. (*Ibid.*, § 116). There have, indeed, been instances in which the additional commissioners have attempted to exclude the surveyor from their meetings and allow him to exercise only these rights of inspection and protest, which the law explicitly confers upon him. But this exceptional procedure, although sanctioned and, it would seem, expected by the statute, was found so inconvenient in practice that the surveyor was allowed to come back.

In practice, then, he is always present when the additional commissioners go over the assessment sheet. He has marked those cases which he particularly desires to call to their notice, and as a rule these are the only cases to which they devote any attention. But it occasionally happens that, of their own initiative and on the basis of their knowledge of local affairs, they increase an assessment or return which he had not thought of questioning. Where his own investigations have convinced him that a return or previous assessment is inadequate, it is safe to say that they are usually disposed to accept his opinion of what the assessment should be, after, perhaps, asking him some questions as to his reasons for thinking as he does. Then there may be some assessments which he is inclined to question, but in regard to which he has no very positive convictions and is desirous to ascertain and quite ready to accept the opinion of the commissioners. For they are likely to have an advantage over him in possessing a more intimate knowledge of local affairs. They are probably old residents in the district and, therefore, well acquainted with the conditions of local trade and in-

dustry. The surveyor, on the other hand, may be a new man making his first assessment in that district. One of the recognized advantages of having the coöperation of a body of men like the additional commissioners is this very fact that they possess that acquaintance with local conditions which is, perhaps, requisite for an efficient assessment of income or property taxes. The degree of independence and amount of supervision which the commissioners are disposed to exercise will, however, vary in different localities. In some places they hardly take the trouble to look at the assessment sheet. They do little more than sign and allow it as delivered to them by the surveyor. In other places, and more particularly in the larger towns or cities, such as Manchester for instance, they are apt to go over the assessment sheet with care, sometimes raising an assessment which the surveyor was ready to accept as adequate, and not infrequently refusing to grant an increase which he thinks ought to be made. Still, generally speaking, it can be said that the commissioners are not disposed to interfere very much with the surveyor's recommendations; so that as a rule his opinion is the controlling or decisive factor in the determination of the assessment.

It still remains to consider what is finally done in those cases where the taxpayer has made no return. Many of these cases, as has been said, are allowed to pass because it is not considered that a return is needed, since the income can be readily estimated. There may be other cases in which the taxpayer has not made a return because his business affairs are not very prosperous,

and the commissioners, knowing, perhaps, that he has had an unfavorable year, are not disposed to press him for a statement. In such cases they would usually take the assessment of the previous year, which, perhaps, was made on the basis of a return and may very likely be more than would be levied upon the taxpayer if the exact conditions of his affairs were known. But he submits to it rather than make a statement.

But after all such cases as these have been eliminated, a number of others will remain in regard to which the commissioners and the surveyor agree that a return ought to be secured, and the only question is whether they shall threaten penalties or resort to the method of raising the assessment.

The Board of Inland Revenue, in their printed instructions to the surveyors, expressly disapprove of the practice of making "speculative charges" for the purpose of bringing in a return.¹ But whatever restraint this may exert upon the surveyor, it in nowise restricts the independence of the additional commissioners, since they are not under the control of the Board; and by the Income Tax Act they are empowered "to make an assessment in such sum as, according to the best of their judgment, ought to be charged by virtue of this Act." Without the support of judicial decisions it may be somewhat rash to undertake to define the nature and extent of the power thus conferred

¹ The rule reads as follows: "The Board disapprove of persons being charged on sums beyond the probable amount of their incomes; and the surveyor is to avoid being a party to increased charges of a speculative character for the purpose of inducing appeals."

upon the commissioners or decide whether it includes the right to make what are termed speculative charges. Apparently, however, the commissioners have a pretty free hand in determining what the assessment shall be ; and if they do not consider themselves at liberty to make arbitrary assessments in order to bring in a return, they may, nevertheless, very plausibly hold that the very fact that the taxpayer has never made a return is in itself so strong an indication of the inadequacy of the previous assessment as to justify them in raising it. Or, on the other hand, they may insist upon having other grounds more relative than this for believing an assessment inadequate before they venture to increase it. But however that may be, the fact is that where no returns have been made the assessments are in many cases increased very considerably ; and of course this procedure, especially if it be repeated in subsequent years, as it not infrequently is, will be pretty certain to bring in a return sooner or later.

But the additional commissioners, although perhaps admitting that the taxpayer ought to make a return, may not be ready to increase the assessment. The surveyor is then left to deal with the case as best he can. If moral suasion is of no avail there is, in fact, but one thing he can do, and that is to threaten or institute proceedings to recover the penalties which the law imposes. This step, however, he would not take without first applying to the Board of Inland Revenue for instructions.

The penalty for not making a return is, as we have

seen, £20 and treble duty if proceeded for before the general commissioners, or £50 if proceeded for before the courts. The Board decides whether proceedings shall be before the courts or the commissioners, and, as a rule, selects the courts, perhaps because the commissioners are rather reluctant to assess the treble duty. When proceedings are actually instituted or even threatened, this step generally, though not invariably, brings in a return, so that the penalty would not be actually imposed. It would seem, however, as if the amount of the fine would not possess very much terror for some of the wealthier taxpayers. But such people are restrained, it is said, by a dislike of the publicity of proceedings in the courts.¹ The cases, however, in which there is a resort to this method of securing a return are comparatively few. Still there are a certain number every year,—enough, at any rate, to show that the clause in the statute which imposes these penalties is by no means a dead letter of the law. Increasing the assessment where no return has been received is, on the other hand, a very common proceeding. No statistical data relative to this question are available; but it is safe to say that at least one-half of those taxpayers who fail to make a return

¹ As the rate stands at present (8 d. in the £) £50 would be equivalent to the tax on £1,500 of income. Hence, looking at the question from a pecuniary standpoint, it would be for the advantage of the taxpayer to pay the fine rather than make a return so long as his assessed income does not come within £1,500 of the amount which his conscience would compel him to declare. It is said that a man with social ambitions dreads exposure as an evader of taxes. This circumstance speaks well for the accepted standard of civic duty among the upper classes in England.

will have their assessments increased; and one can readily understand how the Board of Inland Revenue and the surveyors would naturally prefer this method of procedure. The responsibility of increasing the assessment rests upon the additional commissioners, and the results will probably prove more satisfactory to the Treasury than if a return had been secured by a threat of penalties. For it is said that a return obtained by threatening penalties is apt to prove rather unsatisfactory; and it seems quite consistent with human nature that the animosity of the taxpayer should be more quickly aroused by such a step than by an increase of his assessment.¹

Altogether it is evident that in making the assessment the commissioners and the surveyor exercise considerable discretion as to what shall be done in individual cases. They do not follow any hard and fast rules. Where it seems desirable that pressure should be applied to bring in a return, they apply it in one way or another. Where the return does not seem to be needed and has not been

¹ It may be of interest to note in this connection that in recent years none of the forms or papers regularly sent out to the taxpayers under Schedule D contained any mention of penalties. It seems, however, that there was a change of practice in this particular. At an earlier period the return form did contain a warning of the possible consequences of not making a return. Then this clause was omitted because it was deemed more politic,—if not more polite,—not to say anything to the taxpayer about penalties save as a last resort. Hence the taxpayer was not officially informed that there was any penalty for not making a return until he was actually threatened with the imposition of it. But this arrangement, it seems, was not regarded as altogether satisfactory, and the clause in question has probably ere this been restored to the Schedule D form.

sent in, they make the assessment without it. This method is doubtless open to the criticism that there is something arbitrary or accidental about it. It may happen that, without any intention of favoritism or discrimination, they follow up one taxpayer and get a return by raising his assessment or by threatening penalties, while another who is, perhaps, underassessed to an equal or greater degree, may not attract their attention and will, therefore, be left unmolested. This criticism, however, has not been suggested by anything that has come to the writer's knowledge in connection with the actual workings of the English income tax. It might be supposed, furthermore, that the additional commissioners would be influenced in some degree by friendly or neighborly considerations or by a regard for their own interests or popularity, and would, accordingly, be reluctant to take any proceedings against their friends or against influential men in their district. It is probable that such influences are occasionally operative. But on the whole it does not appear that there is much cause for complaint or for dissatisfaction with the work of the additional commissioners in this respect. They are hardly the kind of men to make any serious or deliberate misuse of their powers. Moreover their position is such that they can afford to ignore local influences, and make the assessment without fear or favor; for they do not, as we have seen, owe their office to the local electorate, and more than that they are protected and concealed from the general public. They constitute, in fact, a sort of secret tribunal.

The public are hardly aware that there are any additional commissioners. The taxpayers look upon the surveyor as the man who makes the assessment, and it may be said that they are far from being altogether mistaken in this impression. Still it remains true that the power of making the assessment is by the law vested in the hands of the additional commissioners. But if the taxpayer should be informed by the surveyor or discover in any other way that there were additional commissioners who were responsible for the assessment, he would find it difficult or impossible to ascertain who they were. The surveyor would decline to do more than give the name of their clerk; and the clerk if appealed to would prove equally reticent. If the taxpayer has a grievance, he must appeal to the general commissioners. The additional commissioners are unknown and inaccessible.

Reference has already been made to the surveyor's right to object to any assessment. If he wishes to exercise that right he is required by law to state his objection in writing to the additional commissioners, who must then refer it, together with their reasons for making the assessment, to the general commissioners. The taxpayer must be notified in order to give him an opportunity to appear in support of the assessment which has been objected to. But under ordinary conditions the surveyor never makes any use of this right of objecting.¹ It is naturally the policy of the Board of Inland Revenue to

¹In fact the writer could learn of but one instance in which any use was made of it. That was on one of the occasions referred to above

maintain amicable relations with the district commissioners ; and as a rule if a surveyor cannot persuade the additional commissioners to make the assessments which he thinks ought to be made, he must gracefully yield to their decision. In fact if a surveyor could not generally get about what he wanted from the commissioners without stirring up strife or opposition, it would in all probability be regarded by the Board as an indication of incompetency or a lack of tact on his part.

When the additional commissioners in consultation with the surveyor have decided what assessments shall be made, they sign and allow the assessment sheet. This completes what is termed the first assessment, and the taxpayers are informed of the result by the notices of charge which are now sent out. There is however still opportunity for further assessments, first by means of what are termed additional first assessments and then by the exercise of the surveyor's right of surcharge.

Additional First Assessments.—We find it provided in the statute that if “the surveyor discovers that any properties or profits chargeable to duties have been omitted” from the first assessment or that any person has not made a full and proper return or has not been adequately assessed, then “the additional commissioners shall make an assessment in such sum as

when the additional commissioners exercised their legal right of excluding the surveyor from their meetings. Thereupon the surveyor, perhaps with punitive intent and no doubt with the sanction of the Board of Inland Revenue, sent in a large number of written objections, which gave rise to so much inconvenience that the commissioners were ready enough thereafter to open their doors to him.

according to their judgment ought to be charged on such person subject to objection by the surveyor and to appeal." (Taxes Management Act, 1880, § 52). This right to make additional first assessments terminates at the end of four months after the expiration of the year to which the first assessments relate. The tax year begins with the sixth of April. The first assessments are generally completed by October. After that the opportunity to make additional first assessments will remain open until the sixth of August following. Omissions from the first assessments are by no means always unintentional. There are cases which are purposely omitted because better data for the assessment can be procured by delay. For instance, take corporations which are not ready with their annual report when the first assessments are made. Such cases may be allowed to go over to be brought in later by means of additional first assessments.

Surcharges.—After the time for additional first assessments has expired, there is still an opportunity for further assessments by the exercise of the surveyor's right to make what are termed surcharges. This, as defined by the statute, means that "where the surveyor discovers that a person liable to any of the duties has not been assessed in respect thereof in any first or additional first assessment, he may charge the person liable to the amount which ought to have been charged within the year of assessment to the best of his judgment." (Taxes Man. Act, 1880, § 63). This right terminates at the end of one year after the expiration of the year of assess-

ment, and will accordingly be available for eight months after the time for making additional first assessments has gone by.

These surcharges do not come before the additional commissioners for endorsement. The surveyor is simply required to certify the surcharge to the general commissioners and notify the person surcharged; and if there is no appeal by the taxpayer, the general commissioners, on being assured by the sworn statement of the surveyor that the taxpayer has been duly notified, have apparently no option but to sign and allow the certificate. So, under the statute, the power and responsibility of making surcharges seem to rest upon the surveyor alone, or, indirectly, upon the Board of Inland Revenue; for in practice he would hardly ever venture to make surcharges without first securing the sanction of the Board. Were it not for this power, it could be said that the surveyor had no rights in connection with the assessment other than those of inspection and protest. But in making surcharges he has apparently a free hand. There seems to be some uncertainty, however, as to how far this power extends, or as to the conditions under which it may be exercised. The text of the statute, which has been quoted above, might give one the impression that the surcharge was to be resorted to only when some person liable to the tax had been passed by altogether in the first and additional first assessments. But in practice the Board of Inland Revenue employ this right, not only for bringing new names into the assessment, but also for increasing assessments on persons who have

already been assessed. In both cases, however, the surcharge would be used only for the purpose of utilizing information which has been obtained in regard to the taxpayer's liability after the expiration of the time for making the additional first assessments. In absence of any such new information the surcharge would never be employed for the purpose of increasing an assessment which had been made by the additional commissioners, even though such assessment might be regarded as unsatisfactory or inadequate by the surveyor and the Board.

Surcharges are subject to appeal before the general commissioners in the same way as assessments by the additional commissioners. But if on appeal the surcharge is sustained, either wholly or in part, the general commissioners are required to assess treble duty on the amount of surcharge allowed. Hence it would not be advisable for the taxpayer to appeal unless he had a pretty clear case. The treble duty may, however, under certain specified conditions going to show that the appellant had not intended to evade the assessment, be remitted either wholly or in part. (*Taxes Man. Act*, § 68). Appeals against surcharges are, however, of rare occurrence and the assessment of treble duty is still more exceptional. Indeed, very few of the surcharges are what would be called hostile surcharges; that is to say, the taxpayer who is surcharged has, as a rule, admitted his liability.

After the surveyor's right of surcharge has expired there seems to be no way provided in the statutes for rectifying any deficiencies or omissions that may subse-

quently be discovered; so that the taxpayer's liability seems to terminate one year after the year of the assessment.

Appeals before the General Commissioners.—Appeals under Schedule D are as a rule heard and decided by the general commissioners of the district; although if the taxpayer prefers he may appeal to the Special Commissioners in London. Information as to the steps to be taken in making an appeal is given in the notices of charge which are sent out to the taxpayers.

A very large proportion, however, of the cases in which the taxpayer is dissatisfied with his assessment are settled by conference with the surveyor. Each surveyor is required by a rule of the Board of Inland Revenue to report the number of cases entered in the appeal book for hearing before the commissioners, the number actually heard, and the number settled without personal attendance before the commissioners. These reports show that the majority of cases, taking the country at large, are settled without coming before the commissioners. In some districts the proportion may be as high as 85 per cent.; in others as low as 40 per cent. The settlement of a case by the surveyor may mean that the assessment was not altered, the taxpayer having been convinced that an appeal would be futile. But on the other hand the surveyor on becoming satisfied that the taxpayer's protest is justified, does not hesitate to take the responsibility of reducing the assessment. To be sure, the reductions made by him are conditional

upon the subsequent approval of the general commissioners. But it is pretty safe to take their approval for granted. Probably the commissioners consider that if the surveyor, who represents the interests of the central government and the national treasury, is willing to reduce an assessment, there is no reason why they should interfere. Virtually, then, although not in form, these are appeal cases which are heard and decided by the surveyor. Unquestionably this places a good deal of discretionary power in his hands, and of course affords an opportunity for easy going concessions on his part or even collusion between him and the taxpayer. But the Board have such confidence in their officers that no particular apprehension is felt on this score. Moreover under the efficient system of inspection which prevails, lax or fraudulent practices of this sort could hardly go on very long without detection. They would become apparent in a general relaxation of the assessment or in other ways. Every case, indeed, in which a surveyor has made any reduction of an assessment is recorded and is investigated by the inspector when he visits the district. Moreover it is for the surveyor's interests as an officer of the government with prospects of promotion to keep the assessments well up. So all things considered he may be relied upon to exercise due caution about making reductions on the complaints of taxpayers. He generally requires accounts or a balance sheet; but there will be cases in which a taxpayer does not keep books, and other evidences of the amount of business done or profits received will have to be produced.

The procedure to be followed in those cases of appeals which come before the general commissioners is described in several lengthy sections of the Income Tax Act with a good deal of seemingly unnecessary and rather confusing verbiage. But, simplified and abbreviated, the requirements of the statute are as follows: When the general commissioners receive notice of an appeal they are required to "direct their precept to the person appealing to return to them a schedule containing such particulars as the commissioners shall demand under the authority of this act for their information respecting the property" of the appellant or his trade, manufacture, vocation, etc., and giving "the amount of the balance of his profits and gains" and "the particulars of the reductions of any such profits or gains made" in his statement or schedule. The surveyor must be allowed to examine this schedule when the taxpayer sends it in, and may object to it or to any portion of it. He must state his objection in writing and the cause thereof to the best of his knowledge and belief, and must notify the appellant in order that the latter may have an opportunity to answer the objection if he desires to do so. If in the end the appellant's schedule is satisfactory to the commissioners, they are to confirm or alter the assessment as may be necessary to make it conform with the schedule. But if they see fit, they may first require the appellant to appear before them and verify the schedule under oath. In that case he must be given an opportunity to alter or amend his schedule before the oath is administered. Again, if they are dis-

satisfied with any schedule or require further information, they may put questions in writing to the appellant, who is then required to deliver his answers in writing within seven days. But instead of sending in written answers he may, if he prefers, appear before the commissioners in person to be examined by them *viva voce*. He must be permitted to give his answers without having taken any oath, and he is "at liberty to object to any question and peremptorily refuse answering the same." The substance of such answers as he may give *viva voce* must be reduced to writing and read to him. He is then "at liberty to alter any part thereof and also to alter or amend any particular contained in his answers in writing or in any schedule or declaration" before being called upon to verify the same under oath. After that opportunity has been given him he may be required to take oath as to the truth of his schedule, statements, or answers. The commissioners may summon other persons as witnesses and take their testimony under oath. If, however, a clerk, agent, or servant of the appellant be summoned, the testimony must be taken in the manner prescribed for taking the appellant's own testimony and with the same restrictions. (Income Tax Act of 1842, §§ 118-129).

In actual practice the procedure in appeal cases is much simpler than the statutory provisions which we have summarized would lead one to expect. Most appeal cases are decided by a personal examination of the appellant. But from the statutes one would certainly infer that, before this examination took place, the

commissioners directed their "precept" to the appellant requiring him to send in a carefully prepared and somewhat detailed statement or schedule for their information. But, in fact, they never send out any such precept. They do expect and usually insist that the appellant, if he keeps books, shall send in a balance sheet before the case comes up for hearing. But it is the surveyor who looks after this matter and procures the balance sheet. It would be very exceptional that any written questions were addressed to the appellant, or that his appeal was decided on the basis of written information, or that his oral answers were taken down in writing and read to him. On the appointed day he appears before the commissioners, bringing such evidence as he may wish to present in support of his appeal. He has probably sent in accounts or a balance sheet, which the surveyor and, perhaps, the clerk of the commissioners have examined. He is questioned as to the way in which he has computed his income,—what items he has included and what deductions he has made. Outside parties are never summoned as witnesses. The case is decided on the basis of the taxpayer's own testimony, compared with such evidences as the surveyor may produce. The commissioners usually ask the appellant if he is prepared to swear to his statements or answers, and if he says he is, they generally accept them without actually requiring him to take the oath.¹

¹ The cautious and restricted use of oaths in connection with the assessment of the English income tax is especially noticeable in contrast with law and practice in the United States. In this country those States which have attempted to make use of the declaration

The surveyor, it should be observed, is always present when appeal cases are heard and decided; and he is there as a matter of right. Under the Taxes Management Act of 1880, he has "full power and liberty to be present during all the time of hearing of such appeals and of the commissioners determining the same." He may "give his reasons in support of the assessment or surcharge appealed against" and "produce any lawful evidence in support of such assessment or surcharge." (Taxes Man. Act, 1880, § 57, 7). He has, however, no part in the decision of the case beyond the rights just enumerated. Doubtless his opinion carries a good deal of weight with the commissioners. But if they see fit to disregard it in the end, he has no choice but to submit. For there is no appeal from a decision of the general commissioners except where questions of law are concerned¹. On the question of what amount may be

connection with the assessment of property taxes have, I believe, invariably required a declaration under oath, as did the national income tax which was assessed in the Civil War period. But in England the oath can not be required in connection with the original declaration; but only in connection with appeals, and then only under the conditions and restrictions described above; and in practice it is very rarely administered even then.

¹ As regards appeals from decisions of the general commissioners on question of law the Board of Inland Revenue says in the Report of 1878:—"We may observe that the number of cases which have actually been brought before the courts fall very far short of the number of appeals in which the appellant or the inspector or the surveyor have expressed themselves dissatisfied with the decisions of the commissioners. Our practice is to require from our officers an immediate statement of the facts of all appeals on which dissatisfaction is expressed, and we do not allow a case to be demanded by them unless we concur with their view, or the matter involves doubt, or is of sufficient importance to be submitted to the courts. We cannot, of

assessed in accordance with the provisions of the law they have the last word.

Complaint has sometimes been made because the person appealing against an assessment was not allowed to appear before the commissioners by solicitor, and it has been proposed to amend the law so as to confer that privilege. But the Chancellor of the Exchequer, acting doubtless on the advice of the Board of Inland Revenue, opposed the change believing that the procedure should be kept "as simple and commonplace as it could be," and urging that it was better to leave the matter to common sense and finance rather than have the interference of lawyers.¹

5. ASSESSMENTS BY THE SPECIAL COMMISSIONERS.

Special Assessments.—It should be remembered that there will be a certain number of assessments under Schedule D. which do not come before the district commissioners at all. For, as already explained, the taxpayer may, if he prefers, be assessed by the special commissioners. If he desires to avail himself of this alternative he must notify the assessor when he makes his return of income. In that case the assessor instead of delivering this return to the clerk of the district commissioners, as he would have done in absence of any such notice, delivers it course, prevent cases being demanded by appellants, although by our intervention we are often able to obviate the necessity for proceeding with the case."

¹ Cf. remarks of Mr. Goschen before the Associated Chamber of Commerce in 1887 (*Times*, July 8, 1887), and in the House of Commons in 1888 (325 Hansard, 1264).

to the surveyor under seal. The surveyor examines the returns and statements which have been received in this way. He determines what assessments ought to be made, and fills out the assessment sheet, which together with the taxpayers' returns he then forwards to the special commissioners. They in turn examine this material and, in the language of the statute, "make, sign, or allow such assessment as appears to them just and proper." But from the nature of the situation these commissioners at Somerset House in London must be mainly dependent upon the surveyor, the local officer, for their information in regard to these cases. It might, therefore, be inferred that under these circumstances the surveyor's opinion as to what assessment ought to be made would be accepted without much question; and this inference is borne out by the testimony of one of the special commissioners before the Parliamentary Committee of 1852. "Practically speaking," said this commissioner, "we consider that the surveyors really have the power of fixing the assessment and we have only the power of altering the assessment the surveyor recommends upon appeal." It is said, however, that at the present day the special commissioners exercise considerable independence, not infrequently altering the assessment which the surveyor has recommended or at any rate calling upon him for further information. Usually these are cases in which his assessment does not seem to correspond to the taxpayer's return, or, perhaps, differs considerably from the assessment of previous years. For, although it is expected that such

differences will be explained in the special report which the commissioners require the surveyor to send in with the returns, it may sometimes happen that his explanation fails to satisfy them. But, after all, it is safe to conclude that the cases in which they make any alteration in the surveyor's assessments are comparatively few. We have some statistics bearing on this question for the year 1872. The number of assessments made by the special commissioners in that year was 2740, and in 577 instances an increase was made in the amount returned by the taxpayer ; but this increase was in 546 cases recommended by the surveyor and simply endorsed or accepted by the commissioners, leaving only 31 cases in which the increased assessment was due to their independent judgment or initiative.¹

Other Assessments by the Special Commissioners.—There have been some important additions to the functions of the special commissioners since the income tax was revived in 1842. When the tax was extended to Ireland in 1853, the assessment for that country was placed in their hands ; the statute virtually conferred upon them the powers and duties which in England were exercised by the general (district) commissioners ; and at the same time the surveyors, who were appointed to aid them in the assessment, took the place and discharged the functions of the local assessors and of the

¹ These statistics are taken from the testimony of the Assistant Secretary of the Board of Inland Rev. before the Playfair Civil Service Commission (Par'l Doc., 1875, XXIII.). Statistics of later date would of course be of more interest and value but the writer has not succeeded in obtaining any.

additional commissioners. This was because there were no local bodies in Ireland corresponding to the local commissioners in England. In the latter country such commissioners were an old institution and had been employed for assessing the land tax and the "assessed taxes" long before the income tax was introduced. The absence of any similar institution in Ireland was, in fact, one reason why the tax was not sooner extended to that country. It was not thought worth while to create new machinery there for assessing a tax which, it was supposed, would be only temporary. So as an equivalent for the income tax in Ireland, Peel made some additions to the excise and stamp duties for that country. But when Gladstone in 1853 resolved to re-impose the income tax for a period of seven years he thought it desirable to extend it to Ireland and relegated the work of assessment in that country to the special commissioners and the surveyors.

In 1861 the assessment of the earnings of railways, which had previously been made by the general commissioners of the district in which the head office of the railway was located, was transferred to the special commissioners together with the assessment under Schedule E of the salaries paid to railway employees (cf. above, p. 301).

Furthermore the special commissioners have charge of the assessment of foreign and colonial securities in so far as the interest or dividends from these sources are payable by agents in England who are accountable for the tax. But this part of their work will be described in another connection. (See below, p. 338).

Appeals Before the Special Commissioners.—The special commissioners constitute the court of appeal as regards all assessments which they themselves have made. Although in form this necessitates appealing to the same body which made the assessment, in practice, it proves to be, in the majority of cases, an appeal against an assessment which was virtually made by the surveyor. The taxpayer who wishes to appeal notifies the surveyor. The special commissioners go upon the circuit to render it convenient for the taxpayer and the surveyor to attend the hearing. In dealing with appeal cases they are required by the statute to observe the same rules of procedure as are prescribed for appeals before the general commissioners. But it seems that they conform to the letter of these statutory provisions rather more closely than the general commissioners do. For instance, they always send out a "precept" calling upon the appellant for a schedule. Then, too, they not infrequently address questions to him in writing and require written answers. At the same time they never render their decision until he has appeared before them in person.

Besides hearing appeals against assessments which they themselves have made, the special commissioners may be called upon to hear appeals against assessments which were made by the additional district commissioners. For it will be remembered that the taxpayer who has been assessed by the additional commissioners may, at his option, appeal either to the general commissioners of the district or to the special commissioners in Lon-

don. It is very seldom, however, that a taxpayer avails himself of this alternative by appealing to the special commissioners. Down to 1852,—ten years, that is, after Peel revived the income tax,—there had not been a single instance of such an appeal; and twenty years later, in 1872, we find a passage in the annual report of the Board of Inland Revenue which shows that the Board had felt called upon to inquire into the reason why this right of appeal was not more often made use of. They came to the conclusion that the provisions of the law on this matter were not generally known; and they thought it proper, therefore, to call attention to this option of appealing to the special commissioners in the printed notices of charge which are sent out to the individual taxpayers. But it seems that in attempting to do this they met, in some instances, with an unexpected difficulty, which affords incidentally an interesting illustration of the independent position of the district commissioners. For these notices, although prepared by the Board, were, according to law, issued by the district commissioners through their clerk; and there were several important districts in which the clerks refused to issue notices containing this information and substituted others, printed at their own expense, stating that an appeal might be made to the general commissioners and suppressing all mention of the special commissioners. So the Board of Inland Revenue felt constrained to ask for legislative authority to compel clerks to the general commissioners to issue such notices as the Board might direct. The authority asked for by the Board was con-

ferred upon them by a clause which was inserted in the Customs and Inland Revenue Act of 1873, and provides that "Every notice of assessment of any duties of income tax shall be in such form as may be prescribed or approved by the Commissioners of Inland Revenue." (36 Vict. c. 18, § 9). By the Taxes Management Act of 1880 (§ 15, 2) this rule was extended so as to include, apparently, all the forms and documents used in connection with the assessment and collection of the tax. The notices of assessment now state that the taxpayer may appeal either to the general commissioners or the special commissioners. But notwithstanding this, appeals before the special commissioners are but few. This might be taken to indicate that the taxpayer hopes for a more favorable decision from the general commissioners, who are local officers, than from the special commissioners, who are officers of the Central Government. But probably the true explanation is that he finds it a much simpler matter to go before the general commissioners and have the matter settled at a single hearing. An appeal to the special commissioners usually necessitates considerable correspondence and furnishing of information in writing. They always, as has been said, send out their precept to the taxpayer calling upon him for a schedule. He may come to the conclusion that all this is too much trouble. But whatever the reason may be, the fact is that almost all appeal cases are taken to the general commissioners.

These provisions for appeals before the special commissioners and for assessments by them were introduced

in the Income Tax Act by Sir Robert Peel in order that the taxpayer might, if he desired, be relieved from the necessity of making any disclosure of his financial condition or business affairs to the local commissioners. Not so much use has been made of this privilege as seems to have been anticipated. But the fact that the opportunity exists furnishes a ready and convenient answer to the taxpayer who may be disposed to complain that an assessment or appeal before the district commissioners involves a disclosure of his private affairs to men who are his neighbors and perhaps his rivals in trade. If he finds that so objectionable, he may avoid it by taking his assessment or appeal to the special commissioners.

6. THE ASSESSMENT OF THE INCOME FROM GOVERNMENT SECURITIES AND FOREIGN INVESTMENTS.

The income from government securities or investments in public debt constitutes Schedule C in the income tax classification. As defined by statute this schedule includes "all profits arising from interest, annuities, dividends, and shares of annuities payable out of any public revenue." In the interpretation of this clause, the term, public revenue, is held to include not only the revenue of England or the United Kingdom, but also that of any foreign or colonial government.

The tax on the interest or annuities payable out of the public revenue of the United Kingdom can very easily be assessed at the source of the income and collected by deduction. Interest on the public debt is assessed by the Bank of England, and when the interest payments

are made to the public creditor, the tax is deducted by the bank and subsequently paid into the exchequer.¹ In like manner the tax on government annuities is assessed and deducted by the National Debt Commissioners.

The assessment of the income received from securities of foreign or colonial governments is by no means so simple a matter. As has already been stated, the attempt is made to intercept a portion of this income by making any agent in England who may be entrusted with the payment of interest from such sources responsible for the tax and requiring him to account for the sums passing through his hands in this form. The same plan regulated by the same statutory provisions is applied to the interests and dividends received on the shares, stocks, or bonds of foreign or colonial corporations. This income is classified in Schedule D, while the income from foreign government securities is included in Schedule C. The classification was not an unnatural one at the time when it was adopted, and it has been retained probably because it does not give rise to any practical disadvantage. But so far as the process of assessment is concerned the income from the stocks and bonds of foreign companies now seems to belong in the same class with the income from the securities of foreign governments.

¹ An exception is made of those dividends or annuities the half-yearly amount of which is less than fifty shillings. The tax on these small payments is not deducted at the source ; but the person who receives them is required to include them in his declaration of profits under Schedule D.

The plan of making assessment upon the agents has in fact undergone a somewhat gradual extension and development. The original Income Tax Act of 1842¹ applied it only to the sums payable out of the revenues of any colonial government. But an amendatory act was immediately passed to include the payments out of the revenues of any foreign government.² It was not until 1853, however, that the rule was extended to include the dividends or interest payments on the shares or bonds of foreign companies,³ to which colonial companies were added by an act passed in 1861.⁴

As the result of these several enactments all persons entrusted with the payments of interest, dividends, or annuities payable to any persons, corporations, etc., in the United Kingdom out of the revenue of any foreign or colonial government or out of or in respect of the funds, stocks, shares, or securities of any foreign or colonial company, society, adventure, or concern are required to deliver to the Board of Inland Revenue a complete account of such payments. Any failure to comply with this requirement is punishable by a fine of £100. This form of income is then assessed by the special commissioners; and the agents are responsible for the tax, which they pay into the Bank of England and deduct from the payments which they make to the investors. By an act passed in 1866 it was provided that when the right or title of the person to whom the interest and

¹ 5 and 6, Vict., c. 35, § 96.

² 5 and 6, Vict., c. 80, § 2.

³ 16 and 17, Vict., c. 34, § 10.

⁴ 24 and 25, Vict., c. 91, § 36.

dividends are payable is shown by registration in any book or list ordinarily kept in the United Kingdom, the agent or other person having the ordinary custody of such book or making such list shall be deemed to be the man to whom the payments are entrusted.¹ An important amendment respecting the assessment of coupons was passed in 1885. After a preamble declaring that the previous enactments had been "found inadequate to secure the charging and payment of income tax upon dividends payable out of the revenues of foreign and colonial states and dividends of foreign and colonial companies," the Act of 1885 goes on to provide that amongst the persons entrusted with the payments of such dividends shall be included:—

(a). Any banker or person acting as a banker who shall sell or otherwise realize coupons or warrants for or bills of exchange purporting to be drawn or made in payment of any dividends (save such as are payable in the United Kingdom only) and pay over the proceeds to any person, or carry the same to his account ;

(b). Any person who shall, by means of coupons, etc., received from any other person, or otherwise on his behalf, obtain payment of dividends elsewhere than in the United Kingdom ;

(c). Any dealer in coupons who shall purchase coupons for any dividends, etc. (save such as are payable in the United Kingdom only) otherwise than from a banker or person acting as a banker, or another dealer in coupons.

¹ 29 and 30, Vict., c. 36, § 9.

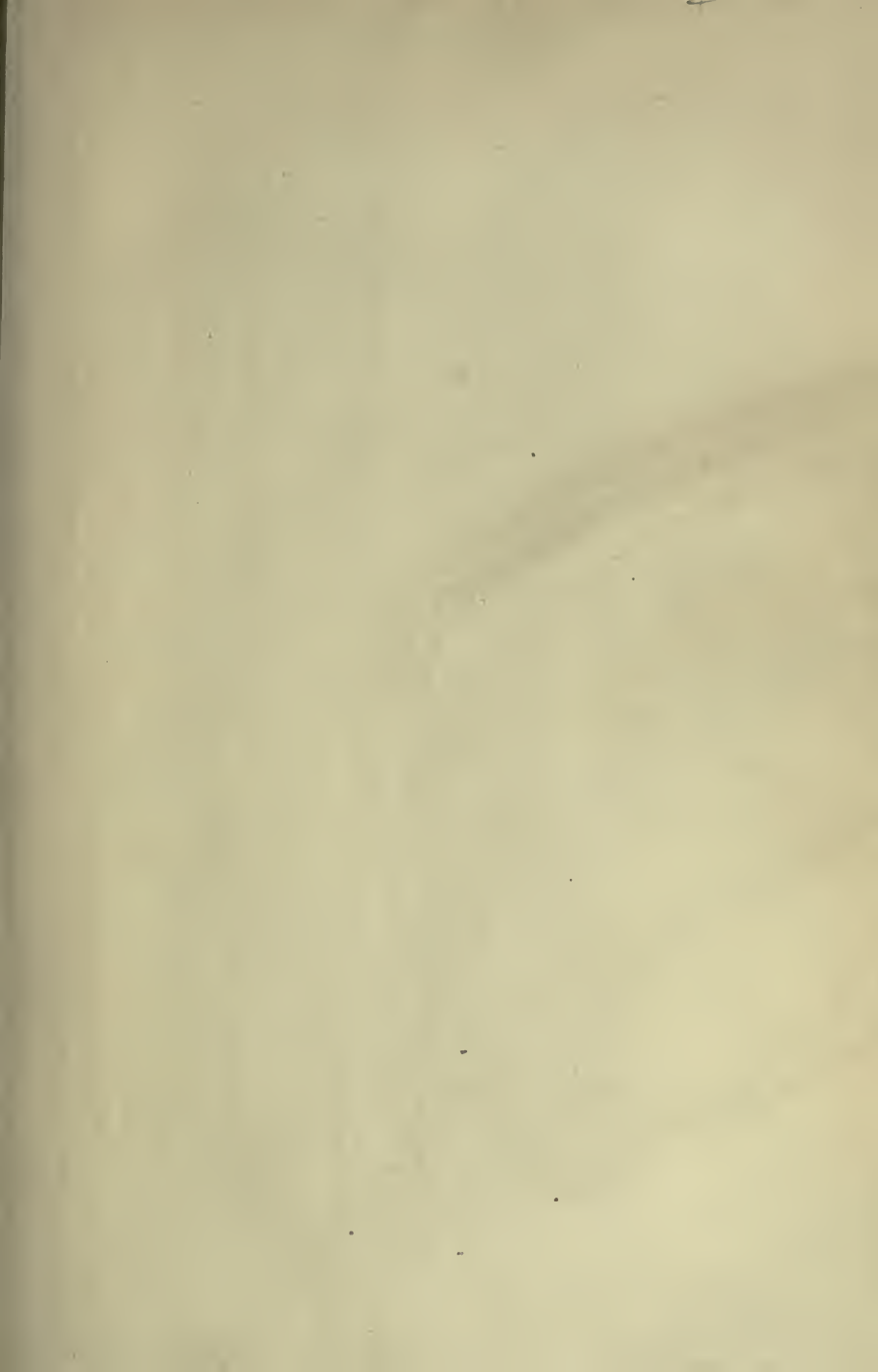
The Act also provides that "a person entrusted with the payment of dividends, who shall perform all necessary acts so that the income tax may thereon be duly assessed and paid, shall be entitled to receive as remuneration an allowance of so much (not being less than three-pence) in the pound of the amount paid as may be from time to time fixed by the Commissioners of the Treasury." (48 and 49, Vict., c. 51, § 26, and 51 and 52, Vict., c. 8, § 24).

It is not to be expected, however, that all the income from investments abroad can be reached in the hands of agents. Even if the agents and bankers are all faithful in making the returns which are required of them, there must remain a good deal of income from foreign sources which does not pass through the hands of any agent, but is paid directly to the investor. The only thing that can be done in such cases is to make the investor responsible for the tax; and we find, in fact, that the taxpayer is expected and required to include in his returns of income under Schedule D the profits received from colonial and foreign securities, if the tax on such profits has not been deducted by any agent or banker.¹ It is evident that the assessment of such income must be to a large extent conditional upon the taxpayer's honesty in making his returns. If he does not choose to include these untaxed interest payments and dividends in his statement, it is hard to see how the commissioners or the surveyor can estimate the amount or even ascertain the existence of such income; and there can be no ques-

¹ Cf. Schedule D form of return, Appendix I, A.

tion that a large amount does in fact escape assessment in this way.¹ The arrangement for assessing coupons, which has just been described, was adopted in recognition of the insufficiency of this part of the assessment and with a view to remedying it so far as practicable by extending the plan of making assessment upon the agent. The measure was successful in reaching between seven and eight millions of income, a large part of which had probably been untaxed before. But the assessment of income from foreign sources must still be far from complete.

¹ In 1892 the assessment of income from foreign and colonial securities and possessions amounted to £16,100,000. Of this amount £12,600,000 was accounted for by agents and bankers, and the balance, £3,500,000, was assessed upon the owners of the securities or possessions. In these figures the coupons assessed to bankers and agents under the provisions of the Act of 1885 are not included.



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